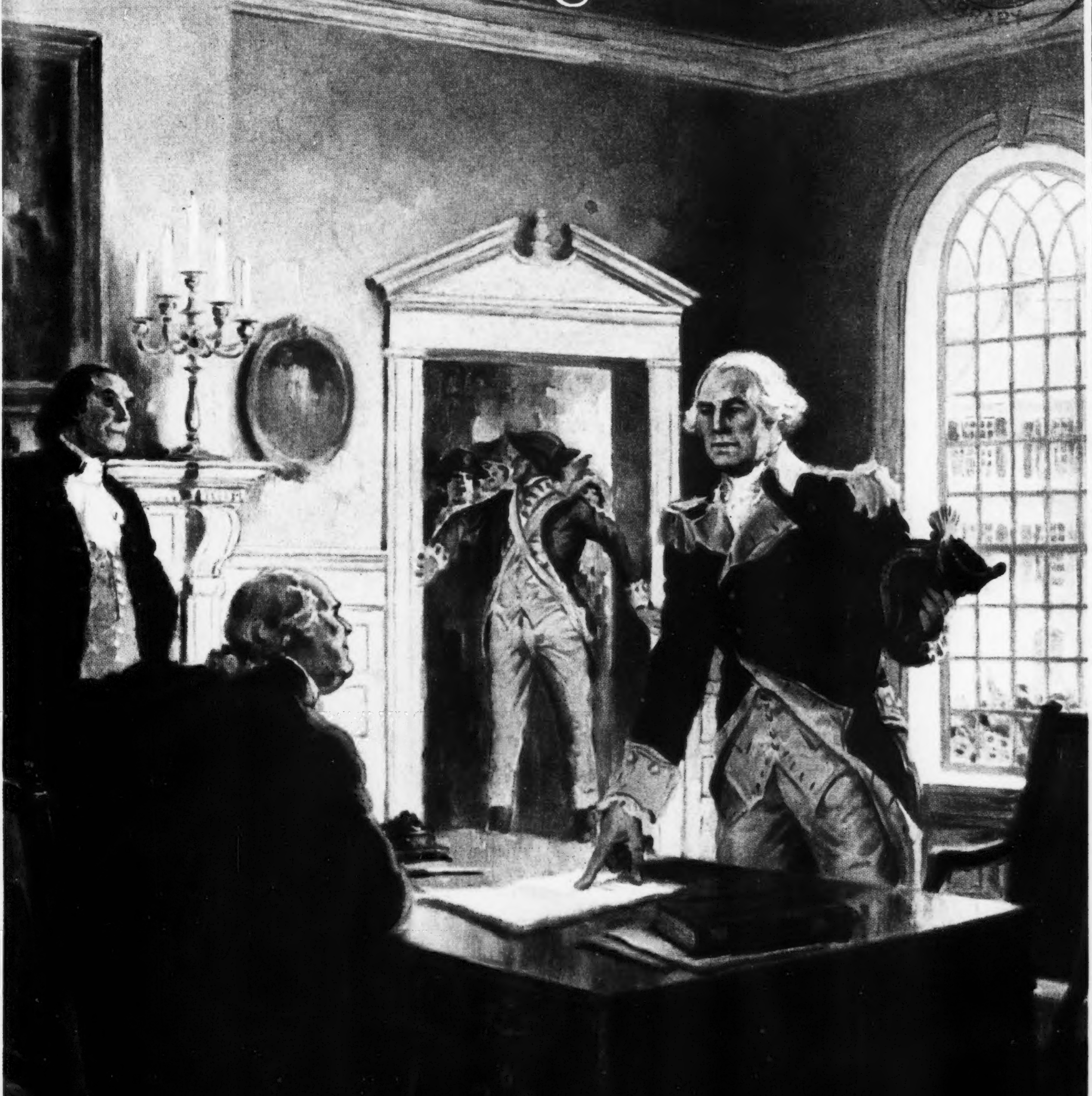
FEBRUARY, 1932

AMERICAN BANKERS Association JOURNAL



THE COST OF A NEW NATION

Cover Story on Page V

Published in Two Sections—Section One

Behind the Bond News

Organized Support Relieves Pressure. Balanced National Budget Is Vital Need.

THREE years ago there was scarcely a domestic or foreign state, municipality or industrial corporation which did not have unlimited access to this country's capital market. Some of them could approach it through stock flotations, others through bonds. Since that time, particularly within the last few months, the open market credit of nearly all private enterprises and public bodies has been deteriorating. Latterly the field has narrowed down at times to almost one borrower alone—the United States Government.

In the last few weeks, however, the market has not been entirely devoid of non-government issues. In the latter half of January about $150,000,000 of financing occurred, and the issues were notable for two reasons. In the first place, it was possible to market $100,000,000 of three to five year New York City corporate stock notes, with the offering exceptional as to size; in the second place, a ready market was found for a $25,000,000 issue of New York Edison bonds, the issue being remarkable in that it was the first sizable utility or industrial obligation to be sold in several weeks. Two other municipalities, Rochester and Baltimore, offered about $10,000,000 of bonds, and Kansas Power Light, affixing the attractive coupon of 6 per cent found buyers for a $7,500,000 issue.

PARTLY as a result of the market's belief that the government's credit would be used wisely and discreetly to buttress private credit, and partly for other reasons, bond prices have experienced a good rally in the last few weeks. In no quarter have prices improved more gratifyingly than in the case of the railroad bonds. The second grade rails especially have scored good gains, and to them has been attracted much of the speculative interest usually centering on the stock market.

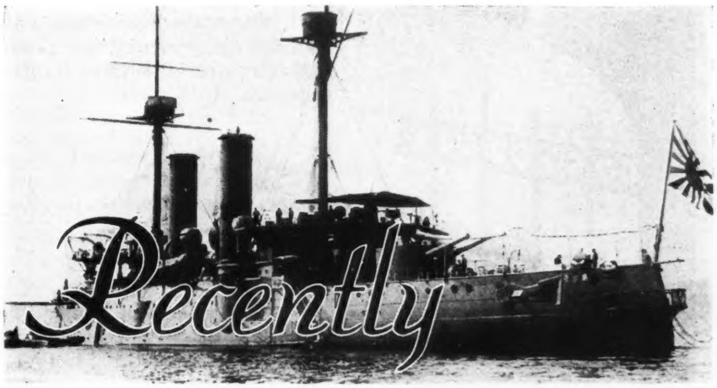
It goes without saying that the recovery in market prices has been accomplished without the removal of any of those fundamental causes which brought about a heavy depreciation in railroad credit. The negotiations which have resulted in a cut in the wages of railroad employees, of course, simplify one of the more fundamental difficulties of the carriers—the failure of operating expenses to decrease proportionately to the decline in operating revenues. Nevertheless, the chief problem of the railroads remains: traffic is showing no sign of increasing. But in spite of the unsatisfactory level of traffic, public sentiment toward railroad bonds has improved through the application of a comprehensive plan that speaks well for the ingenuity of financial and governmental leaders.

WE have had a National Credit Corporation functioning to remove pressure from the bond market. This organization, supplied with funds by the banks themselves, has advanced upward of $150,000,000 of loans to more than 600 banks, obviating the forced sale by them of an untold amount of railroad bonds, as well as other collateral. We have had a Railroad Credit Corporation set up to collect and make available funds to roads in need of cash to make interest and sinking fund payments, thus removing the specter of default. We have had the Reconstruction Finance Corporation, which will assist the railroads in meeting about $400,000,000 maturities of bonds, equipment issues and short term loans this year. We have had the New York State Legislature empowering the departments of banking and insurance to ignore 1931 earnings of the railroads in compiling the legal list; by this step some 70 per cent of the rail obligations were spared dismissal from the legal list. Finally, we have had a loosely knit group of New York banks and private bankers standing ready to regularize trading in some of the prime rail bonds by placing bids in the market at attractive prices whenever all the measures afoot to improve and protect railroad credit have had no effect. Not often has there been devised a more all embracing plan

(*Continued on p.* 537)

THE COVER

After bidding farewell in New York to his officers, George Washington left for Annapolis, where Congress was in session. He stopped on the way at Philadelphia and submitted a full report of his expenses during the war. The account was in his own handwriting and covered a total expenditure of $74,485.



January

1 Year end bank reports show unusual liquidity. Federal Reserve member bank credit $2,500,000,000 lower than year ago, New York Reserve Bank reports.

2 Hoover ticket to be entered in every state with primary, President's friends report. British reject Gandhi's peace proposals.

3 Gandhi arrested. Japanese beat United States Consul, Culver Bryant Chamberlain, in Mukden.

4 President Hoover urges Congress to expedite action on his reconstruction program. Democrats' tariff program introduced in House by Representative James W. Collier. National Credit Corporation issues first call for payment by banks of 10 per cent of subscriptions. F. W. Williamson assumes presidency of New York Central as P. W. Crowley retires.

5 Senate Banking and Currency Committee orders Reconstruction Finance Bill favorably reported. New York Stock Exchange street loan compilation off $143,000,000 in December. Interstate Commerce Commissioner, Leo J. Flynn, demands Federal regulation of interstate trucks and buses.

6 United States, Great Britain and France prepare joint reminder to Japan to justify acts. Steel ingot production for 1931 at ten-year low of 24,900,195.

7 Secretary Stimson warns Japan and China open door policy must be preserved. Bomb hurled at Emperor Hirohito, who escapes unharmed. Democratic tariff bill reported out by Ways and Means Committee. American Bankers Association urges Congress to reduce expenditure and increase income.

8 Charles G. Dawes announces resignation as Ambassador to Court of St. James's. J. & W. Seligman & Company partner, testifying in Washington, says firm paid $415,000 to intermediary in Peruvian loan negotiations. New York State Bankers Association holds annual midwinter meeting in New York City.

9 Chancellor Bruening announces Germany cannot make any further reparation payments. House passes Democratic tariff bill, depriving Hoover of flexible provision privileges. Austria decrees limited moratorium on short term debts.

10 Bruening's stand on reparations irks France and Belgium. Rail labor representatives reach Chicago to confer with rail executives on wage cut.

11 Premier Mussolini, in newspaper article, asks cleaning up of war debts. California oil prices advanced.

12 Governor Roosevelt of New York asks 100 per cent state income tax increase to meet $124,000,000 deficit. Cabinet of Premier Laval resigns. James A. Farrell announces retirement as president of United States Steel as of April 18. Mayor Walker holds up $110,000,000 city improvement items in retrenchment program. Associate Justice Oliver Wendell Holmes resigned from the United States Supreme Court. Federal Reserve Bank of New York cuts buying rate for bankers bills.

13 Secretary Mellon and Ogden L. Mills warn Congress of need for tax increase to improve Treasury credit. Laval appoints second cabinet. Senate passes bill to add $100,000,000 to capital of Federal farm land banks.

14 Alfred E. Smith asks United States bond issue to relieve unemployment through public works. American bankers accept new Austria standstill agreement.

15 House passes Reconstruction Finance Corporation bill. Dealers cut open market bill rates third time in week. Chamber of Deputies of Uruguay approves plan to suspend amortization payments on foreign debt.

16 United States 1931 trade balance $334,000,000, with exports $2,424,000,000 and imports $2,090,000,000. Railway labor asks wage cut truce during year of 10 per cent reduction.

17 Costa Rican emergency decree grants one year moratorium on principal to bank debtors. United States' flotations of new capital in 1931 total $4,016,000,000 against $7,677,000,000 in 1930.

18 New York State Assembly holds up state banking legislation. E. G. Grace, president of Bethlehem Steel, urges cut in taxes.

19 Bankers lend New York City $12,500,000 at 6 per cent for eleven days. House votes investigation of ownership and control of public utilities. Secretary Stimson says United States will take no action on war debts until Europe reaches own agreement. Charles G. Dawes appointed president and Eugene Meyer chairman of Reconstruction Finance Corporation. Bank of France begins withdrawal of $125,000,000 earmarked gold here.

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20 Senate and House conferees agree on terms of Walcott-Strong Bill to establish Reconstruction Finance Corporation. British Government "reluctantly" abandons hopes of re-opening reparations discussions, scheduled for January 25 at Lausanne. New York City gets $250,000,000 bank credit. (Albany) Campbell Bill, under which 1931 operations are waived in determining eligibility of railroad bonds for legal list, passes both Houses of Legislature. (New York) Bankers' acceptances outstanding at end of December placed at $974,059,350 by American Acceptance Council, lowest total since August, 1928.

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21 Text of Glass Bill, revising Federal Reserve Act, is published. Heavy public demand reported for $100,000,000 corporate stock of New York City offered by banking group of fifty without commission; bears 6 per cent, highest rate in history. Illinois State Senate passes Kelly plan for reorganizing Chicago finances. Spain mobilizes troops to quell "anarchist movement." Washington Administration re-affirms position that next reparations move must come from Europe.

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22 (Shanghai) Rear Admiral Koichi Shiosawa Japanese fleet commander, issues ultimatum to Chinese, demanding cessation of anti-Japanese activity. Premier Laval wins vote of confidence for his second cabinet 303-265 on policy of insistence upon Versailles Treaty rights. President signs Reconstruction Finance Bill. Annual report of New York Reserve Bank shows it fell short of earning dividends by $2,359,518.

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23 Senator Borah, chairman of Senate Foreign Relations Committee, deplores extension of moratorium to Germany; urges cooperation between France and Britain. "Standstill" agreement, prolonging

(*Continued on page* 520)

AMERICAN BANKERS ASSOCIATION JOURNAL

What the Reconstruction Plan Means to Your Bank

By MORRIS EDWARDS

THE Reconstruction Finance Corporation—a promising idea six weeks ago, a going concern today—marks by the very fact of its organization a pronounced shift from defensive to offensive tactics in the nation's struggle to throw off the effects of economic depression and over-deflation.

The law creating it has been passed by Congress and signed by President Hoover. Its president and board chairman have been appointed. Its funds have been made available. It is on the threshold of actual operations. Whatever the scope and duration of the task before it—and there are few in Washington who have any illusions concerning the magnitude of its job—it represents action, positive and aggressive action, on a magnificent scale.

It Has Wide Powers

WHAT is it? The Act says that it is "a body corporate" with $500,000,000 capital subscribed by the United States Government. It has an extensive array of statutory and discretionary powers. It may issue $1,500,000,000 of Government-guaranteed debentures. It is authorized to make loans to a wide variety of financial institutions, railroads and agricultural financing agencies in order "to aid in financing agriculture, commerce and industry" and to "facilitate the exportation of agricultural and other products."

General Dawes

But the formal language of statutes fails to breathe the spirit back of the corporation. This came to the surface in President Hoover's message in December, in the testimony before House and Senate committees, and in the discussions on the floors and in the cloak rooms of Congress.

In that spirit, what is it? A gesture to restore confidence? Certainly that, but much more—a gesture backed up by an enormous, mobile force that, by all early indications, will be wheeled into action unhesitatingly if need be. A belated "rescue party"? No. More accurately, an anchor to windward.

Through the crowded days of its transition from a bold idea to an accomplished fact, the Reconstruction Finance Corporation has been likened to many things. "Like a supercharger on an automobile engine," one congressman said. He had just heard a New York banker describe it as "the big, extra generator in the electric light plant which is turned on at rare intervals to help pull an exceptional peak load."

"The purpose," declared Governor Eugene Meyer of the Federal Reserve Board, who is Chairman of the Board of the new corporation, "is to bring the resources of the nation, through the Government, into action on a scale and in a manner that will be adequate to accomplish an important and desirable result."

Appearing just after Governor Meyer before the Senate Banking and Currency Committee, Ogden H. Mills, Under Secretary of the Treasury, said: "As I visualize this corporation, it puts the Government in a position to close almost immediately any gap that might develop through an emergency in our credit structure. I think its very existence will have a great effect psychologically. The sooner it is created, the less use we will make of it."

It Can Act Quickly

VIEWED from an operating standpoint, apart from these testimonials by its sponsors, the elements which distinguish the corporation from other normal and extraordinary credit institutions lie in the magnitude of its resources, its ability to act quickly on

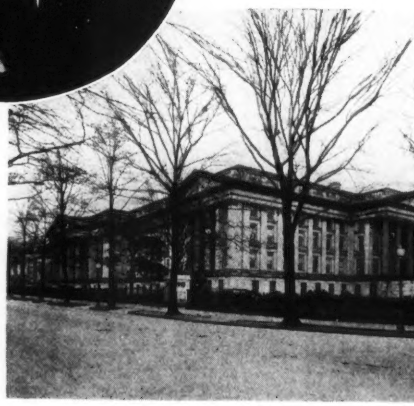
the judgment of its directors rather than on the letter of a vast body of regulations, and its mobility to deal with emergencies in particular regions, states, cities, or lines of business. Those were the salient points repeatedly alluded to by banking, business and railroad leaders who testified at the House and Senate committee hearings.

It was not until the conclusion of two days of conferences between the Senate and House that the specific scheme of organization and operation, prescribed duties, and borrowing and lending powers of the corporation finally emerged. The law embraces these points:

Governor Meyer

Organization: The Reconstruction Finance Corporation is organized for a limited life of ten years. It is to be managed by a board of seven directors, not more than four of whom may be of one political party. Three of the directors are the Secretary of the Treasury (or the Under Secretary), the Governor of the Federal Reserve Board and the Farm Loan Commissioner. The other four are appointable by the President. (One of these, General Charles G. Dawes of Chicago, was named president of the corporation before the Act was signed.) Not more than one director may come from any one Federal Reserve District. Except for the Government officials, whose compensation will remain unchanged, the directors will receive $10,000 a year each. The corporation has the usual powers with respect to organization, employment of staff, etc. Beyond these, it has confidential access to records or information of other Government departments which may have a bearing upon its transactions.

Borrowing powers: The corporation may issue and have outstanding at any one time notes, debentures, bonds or other such obligations aggregating not more than three times its subscribed capital (maximum of $1,500,000,000). Such obligations must mature not more than five years from their respective dates of issue. The corporation may determine the rates of interest of such obligations, with the approval of the Secretary of the Treasury. It also may sell short-term obligations on a discount basis, within the $1,500,000,000 maximum. The bonds, debentures and other obligations will be secured by assets of the corporation in such manner as the directors may prescribe, and will be fully and unconditionally guaranteed both as to principal and interest by the Government of the United States with the guaranty to be indicated on their face. Provision is made for the Secretary of the Treasury to pay the obligations in case of default. The obligations of the corporation may be purchased and sold by the Treasury, such operations to be regarded as public debt transactions. The corporation has the option to liquidate its obligations before maturity in such manner as may be stipulated in the obligations themselves.



Treasury Building, Washington

Aid to Banks

LENDING powers: The corporation is empowered to make loans, upon such terms and conditions as it may determine not contrary to the Act, to any bank, savings bank, trust company, building and loan association, insurance company, mortgage loan company, credit union, Federal land bank, joint stock land bank, Federal intermediate credit bank, agricultural credit corporation, and to the receiver of any closed bank. All such loans shall be fully and adequately secured. Under certain conditions, the corporation may take over and administer and liquidate collateral accepted as security for loans. Such loans may be made directly upon the borrowers' promissory notes, or by way of discount or rediscount of obligations tendered by qualified borrowers.

Loans may be made for a term not exceeding three years, with the corporation empowered to extend such loans from time to time, but for not to exceed five years. The lending period is limited to one year following the date of enactment, but this period may be extended by the President up to one additional year.

The corporation also is empowered to accept drafts and bills of exchange which grow out of transactions involving exportation of goods actually sold or transported for sale and in process of shipment to buyers in foreign countries up to a total of such acceptances not to exceed $500,000,000.

The Act also provides that $50,000,000 of the capital, and presumably a pro rata proportion of any debentures which may be issued (that is up to $200,000,000 total) shall be set aside for loans direct to farmers, especially those who suffered crop failures in 1931.

With respect to loans to receivers or liquidating agents of closed banks, a maximum of $200,000,000 is stipulated.

Loans may be made to railroads, railroads under construction and to receivers of railroads, with the approval of the Interstate Commerce Commission, when the railroads are "unable to obtain funds upon reasonable terms through banking channels or from the general public, and the corporation will be adequately secured."

The maximum which may be loaned to any one corporation or its subsidiaries or affiliates is $100,000,000.

Loans may not be made upon, or to assist in carrying, foreign securities or foreign acceptances.

Loans may not be made to any new enterprises, except agricultural or livestock credit corporations, Federal land banks, joint stock land banks, Federal intermediate credit banks, or loans to banks for financing agricultural operations.

Will Report to Congress

TECHNICAL aspects: The corporation's securities are neither eligible for rediscount nor purchasable by the Federal Reserve banks, although they are purchasable and saleable by the Treasury. The securities are tax exempt, both as to principal and interest, except for surtaxes, estate, inheritance and gift taxes. The corporation itself, both as to fran-

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Bond Buying Is an Art

By J. HARVIE WILKINSON, JR.

Choice Between Yield and Liquidity, and the Difficulty of Trying to Walk With a Foot in Each Road

ASIDE from the academic aspect of the matter, I think it safe to classify our primary reserves as cash, float, and due from banks. I know it is customary to add to this group balances with the Federal Reserve Bank, which balances constitute our legal reserve. However, this legal reserve cannot be drawn down except at great penalty. In secondary reserves there should be included call loans, bankers' acceptances, commercial paper, short term United States Government bonds, short term high grade municipal bonds, and short term high grade corporate bonds.

It is more than likely that as time goes on, the interior banks of this country will become greater buyers of acceptances than they are now. The unquestioned credit and the active market existing for them at all times are natural factors in their favor. Moreover, and this is an important point, the ability to buy definite maturities of varying lengths which can be made to coincide with deposit fluctuations is desirable. Prime name commercial paper, too, has its advantages. It is self-liquidating and of relatively short maturity. The market is not as active as is the acceptance market. There is, however, to be had a slightly greater return from prime name commercial paper than from bankers' acceptances and where large institutions are qualified to do thorough credit analysis work, there is no reason why commercial paper should not be included in the secondary reserve portfolio.

Supply of Commercial Paper

IT is important that the small banks also have liquid secondary reserves, but unless the larger correspondents of these banks set up some arrangement to service definitely these institutions, it is difficult to see how this latter group can with wisdom purchase commercial paper. In 1922 the average amount of commercial paper outstanding at the end of each month was $768,500,000. In 1929 the average amount outstanding was $322,000,000, a decline of 58 per cent. In the early part of the present decade there were many well known names in the market available at a good rate of return. Since that time the mode of financing has changed and both the amount and names in the commercial paper market have changed considerably. Many companies have financed through stock issues, others through bonds, and still others have taken to bankers' acceptances, which in 1925 averaged $696,000,000 a month and in 1929 $1,298,000,000 a month. This changing complexion, then, has tended to rob the country bank of one source of liquid investment and that source was its main one.

> "IF, as regards some points, we are now entering upon a new era of banking, will it not be possible to bring about a closer working relationship between banks in large cities and those in outlying districts wherein the former may, for a fee to cover the work involved, assist the latter in building a secondary reserve worthy of the name?"

Moreover, the small bank—and indeed one might say banks—seems to possess to a large degree the age-old characteristic of wishing to have one's cake and eat it too. The desire for a high return on investments of every nature leads these banks to disregard bankers' acceptances, commercial paper and short term highly liquid bonds. There is no earthly way to compromise this matter with one foot on the path of high return and another foot on the path of liquidity. To one side or the other must one definitely go, and the path of high return is composed of quicksand. The choice is plain and the consequences are inevitable.

If, as regards some points, we are now entering upon a new era of banking, will it not be possible to bring about a closer working relationship between banks in large cities and those in outlying districts wherein the former may, for a fee to cover the work involved, assist the latter in building a secondary reserve worthy of the name? Alas, there is not perfection in the city cousin but he does handle a great volume of transactions and a variety of problems which will make him helpful. In this connection one brings to mind the fact that service charges are rapidly becoming the fashion of the day and may be overdone and, in addition, I realize that banks in the outlying districts pay a high rate of return for their raw material, but if this high rate of return on deposits is not done away with, soon there will be no country banks, and it is with the firm belief that interest paid on deposits will be reduced that the above is offered as a practical suggestion.

The Way to Buy Bonds

SEVERAL times mention has been made of short term highly liquid bonds and this raises the question of the desirability of bonds for the investment of a bank's funds. A short maturity in a bond is not synonymous with liquidity. In other words, one might well have a bond maturing in one year which is not as liquid as one maturing in eighteen months or two years. This matter of short maturity may easily be a snare and a delusion when it comes to liquidity. I will grant that short term bonds are generally liquid, but it does not necessarily follow, and for that very reason the purchase of short term issues as a secondary reserve must be closely watched.

In considering bond buying, I should like very much to refer to it as a philosophy of bond buying, for after

(*Continued on page* 543)

Says the Banker To the Mayor

By HENRY HART

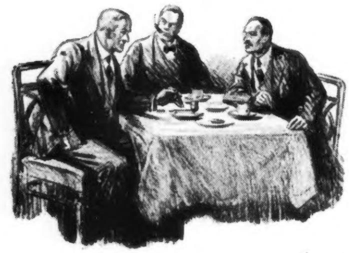
WILL the municipalities of America get in step with the procession leading the country back to normalcy? Will they accept the challenge of sound economy and balanced budgets in place of liberal expenditures and increasing deficits? Individuals and private corporations generally speaking, have been quick to recognize the fallacies of the latter practices. Can the public servants continue a policy that is no longer followed or approved by their constituents—the voters and the taxpayers?

Healthy Signs

AMONG the most hopeful signs that we are returning to sanity and getting our feet back on the ground are the changing attitude already evidenced by many public officials and the awakened interest that we as citizens are taking in the public affairs of our own communities. It may not be an indication of a permanent reform, or that we are prompted by a fresh zeal of civic conscience, but only an awakening to the direction in which political winds are blowing and the realization that taxes are not being reduced along with our other expenses. Though the motives may be selfish, they should do much to insure a satisfactory answer to these questions.

The Facts Compel Economy

OTHER forces even more effective than the aroused taxpayer or the worried politician are at work to correct existing evils in municipal affairs. Economic conditions have either caused or given the excuse for substantial shrinkage in tax collections and other revenues. While declining revenues are a new experience to many municipal officials, others have been well schooled in meeting the problems through tax anticipation loans. Some have devised the scheme of refunding deficits into bond issues. Right now the usual channels of credit are seriously disturbed by the same conditions which have caused reduced revenues. As a result municipalities find that they can only borrow



money after they have demonstrated that their securities are a sound credit risk. This necessarily involves a balanced budget, and otherwise placing the municipality's house thoroughly in order.

It should not be assumed from these statements that all municipalities, or any substantial portion of them, have been following unsound practices in their fiscal affairs. It is only the sensational situations that are mentioned in the newspaper headlines. The communities which are blessed with citizens having a taxpaying conscience and ability to pay, and with officials alert to changing conditions, are legion, though unheralded. The public officers who have been suddenly embarrassed by bank failures and other events entirely unforeseen, should not be condemned. To all of these, as well as to those who are seeing the light for the first time, only constructive criticism should be advanced.

Methods which have proved effective in one community should be passed on to others. Knowledge of sound business principles gained in the operation of private corporations should be made available, where applicable, to the public bodies. A definite responsibility is placed on the men experienced in financial matters to see that the officials in their community are so guided to the end that the credit of the community may be preserved, and the tax dollar economically expended.

What Might Be Done

WITHOUT attempting to cover the entire scope of municipal activities or venturing beyond the realm of generalities, there are presented herewith suggestions based on fundamental principles. These have been adopted in whole or in part in certain municipalities as a standard of practice, calculated to meet the tests of the present economic upheaval. They are aimed to preserve financial equilibrium faced with increasing tax delinquencies and burdened with heavy fixed charges:

A—*Planning*

1—An effective budget.

(a) It should embrace a carefully planned, comprehensive and understandable estimate of city expenditures of every description, and receipts from all sources.

(b) After provision for fixed charges and existing deficits, the balance allotted to operating charges should be based on ability to pay under present conditions, and not on what the public has demanded in more prosperous times.

(c) It should include a reserve for emergencies, unforeseen expenditures and delinquent taxes, based on collections during the previous fiscal year and existing conditions.

(d) Estimated cash expenditures should balance with available or expected cash income, not permitting delinquent taxes or other paper surpluses to support the following year's expenditures.

2—The assessed valuation of property should be maintained on a conservative basis, permitting of as few exemptions as practical.

B—*Controlling*

1—Keeping expenditures within income.

(a) Allocate appropriations for each department on a monthly basis according to seasonal and special requirements.

(b) Place control of expenditures under one head charged with authority to maintain same for each month within the prescribed allotment.

(c) Periodically (monthly or quarterly) make an analysis of the actual cash revenues as compared with the estimated cash receipts in the budget, and in the event the actual receipts are falling below the estimates (after allowing for the

amount in reserve for delinquent taxes), reduce operating expenditures for next period to correspond with reduction in receipts, and reallot the required appropriations except fixed charges.

(d) Where tax-collecting periods do not correspond with the fiscal year, and when consistent with sound practice, loans in anticipation of revenues or taxes, should be restricted to amounts which can be repaid within the fiscal year in accordance with a conservative estimate of probable receipts.

(e) Allocate to interest and sinking fund out of first taxes collected an amount sufficient to take care of maturities and interest well in advance of requirements.

C—Insuring Adequate Income

1—Encourage and facilitate the collection of taxes when due.

(a) Permit payment of taxes by instalments (preferably quarterly).

(b) Mail bills to all taxpayers prior to due date, indicating when interest and penalties start, and amount of same.

(c) Mail second notice just prior to penalty dates.

(d) Advertise and give other publicity to tax due dates, including time when penalties become effective.

2—Discourage delinquency and insure ultimate payment.

(a) Provide substantial penalties, increased in proportion to the period of delinquency, and permit no waiver of same.

Mayor Cermak of Chicago

(b) Remind delinquents of their indebtedness and allow instalment or partial payments with customary penalties on unpaid balances.

(c) Hold tax sales promptly. Tax title buyers should be encouraged by an adequate guaranteed return on their investment, and the authority to obtain a good title to properties purchased.

(d) Enforce payment of personal taxes through seizure of personal property within legal limitations, giving publicity to delinquent list, and watching for opportunities to deduct amount of same from money due taxpayers from city for services rendered, or goods purchased.

3—Secure all public deposits by adequate surety bond or readily marketable securities with ample margin for depreciation.

4—Maintain revenues of publicly owned utilities at highest point commensurate with service rendered and ability to pay.

(a) Each utility should produce net earnings sufficient to carry its own debt charges.

D—Reducing

1— Discontinue all public improvement programs to be financed by bond issues (except in cases of extreme emergency) when the debt burden is substantial, tax delinquency is increasing and the bond market is unfavorable.

City Hall, Philadelphia

2—Do not proceed with special assessment improvements unless cost of same is paid in advance by benefited property owners.

3—When outstanding special assessment bonds are general obligations of the municipality, provide a general tax levy sufficient to offset anticipated delinquency in special assessment collections in so far as necessary to meet maturing obligations.

4—Existing deficits should be absorbed in the following year's tax levy and not funded into long time bonds.

5—If sufficient funds are not available to meet maturing obligations, refunding should be arranged well in advance of requirements and in preference to all other financing.

6—Adequate sinking funds should be maintained, figured on an actuarial basis.

(a) Investments should be restricted to the identical bonds for which the sinking fund is created, or to United States Government, state and municipal securities of the highest grade, which mature at or prior to the time of maturity of the bonds for which the sinking fund is required.

Mayor Walker of New York

(b) Ability to meet bonds maturing within current year should be assured through maintenance of liquidity of sinking fund by early sale of sufficient existing assets, if necessary.

7—Remit principal and interest to the paying agent in ample time and in funds acceptable at par to insure prompt payment on maturity date.

Some of the above recommendations may seem too drastic. These are days when mild remedies will not cure serious cases. Extreme measures in public affairs require courage and leadership. Officials and citizens who recognize that preservation of credit may prevent greater sacrifices later and insure lasting advantage to the community, are the type of leaders needed today to guide our municipalities back to normalcy.

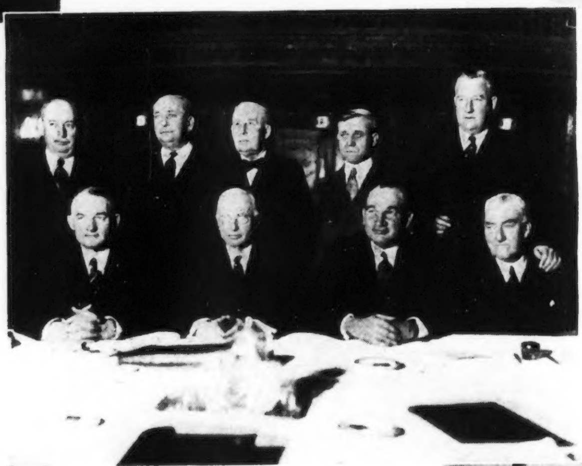
In an adddress to eastern savings bankers, Gaylord C. Cummin, of the Municipal Securities Service, Boston, said:

"The quickest and most effective method of inducing municipalities to correct such bad practices and unsound conditions as exist, is for the investor to refuse credit until the necessary corrections are applied. The time to apply corrective effort is before defaults occur rather than afterwards. The investor, by insisting that municipal finances be properly handled, is not only protecting himself for the present but is insuring that municipal securities will become increasingly sound and attractive in the future. The day has probably gone forever when any general obligation municipal bond can be safely bought, put in a strong box, and forgotten. Municipal investments must be analyzed and watched like all other investments.

The Month

Secretary Stimson, named to head the American delegation to the Disarmament Conference in Geneva

Premier Laval, who states that France needs reparations to pay her debts



Nine railroad presidents attending the wage conference in Chicago: (seated) L. A. Downs, Daniel Willard, J. J. Pelley and A. C. Needles; (standing) J. E. Gorman, L. W. Baldwin, A. Wickersham, H. D. Pollard and C. E. Denney

Andrew W. Mellon explains his tax plan to the House Ways and Means Committee. Mr. Mellon since resigned as head of the Treasury to become Ambassador to England

Senator Carter Glass, Governor Meyer and Charles G. Dawes discuss the Reconstruction Finance Corporation

Thrifty America

By EDWIN BIRD WILSON

Rank and File Citizens Have Set the Nation an Example in Accumulating Capital Reserves for the Future.

IN a business, economic sense, the light that shines encouragingly today and gives us hope, is the faith of the average American in himself and his ability to take care of himself and his dependents. You can search the economic horizon and not see a more hopeful sign than the way millions of Americans are taking care of themselves and their own. If you want a ray of light through the economic fog, look at the savings accounts of millions of ordinary, regular American workers; don't look at the earnings of corporations, or records of unfilled orders, or unbalanced budgets.

Household Management

IS it too much to say that millions of rank-and-file Americans have managed their financial affairs better than many of our generals and colonels of industry and finance? Look over the economic situation in America, and through the gloom and fog this is what you will see: The Federal Government faced with the greatest deficit ever known, a condition which past prudence might have averted. The state of New York with a deficit that now demands doubling taxation on already burdened incomes and doubling certain other taxes—increasing taxes when citizens most need relief from taxes.

It is not too much to say that the so-called little people, the "just folks" of America, who have lived within their incomes and have a surplus in the savings banks are pointing the way to financial and economic sanity. We are witnessing in the economic world a demonstration of Lincoln's proved theory in the political world: You can trust the common people, considered as a mass. Economic leadership of the people has largely failed. The people are developing their own economic leadership, have in fact formed it in principle and now are leading the way. It is a simple principle, an old, time-tried principle that if adhered to consistently would mean permanent, though not spectacular, not excessive, not illusionary, prosperity. That principle is: spend less

than you earn and accumulate capital reserves for future needs.

It is not saying too much to say that many millions of savers are not only pointing the way, but actually building and paving the way, to economic recovery. They will buy when they feel financially secure. Their collective judgment can be trusted to resume buying at the right time and thus start the wheels of industry and commerce. Meanwhile they are filling the reservoirs of capital, of financial power, for resumption on a sounder basis than we have known in recent years. These rank-and-file Americans have been wiser than a thousand business leaders and politicians who have plunged their corporations and their governments into debts, deficits, insolvencies and bankruptcies.

Everybody

NEW business development in savings banks is different in technique from new business development in commercial banking or investment banking or trust business. It is different mainly for this reason, that the need for or desirability of a savings account is universal. Not every man can have a commercial account. Not every man can buy securities or insecurities in considerable amount. Not every man has an estate or trust fund large enough to interest a corporate fiduciary. But every American, from crib-age to dotage, is a logical "prospect" for a savings account. Take the American home of the humble self-serving variety—Mother and Dad, Johnnie and Susie and Tiny Tim—each ought to have a savings account. And in the higher planes of home living, not only the parents and the children, but the chauffeur and the butler and the chef and the maids and the laundress and the gardener—even though there be a small army of retainers—every one should have a savings account. In times of depression it is easier to make them hear the voice of the savings bank than in the temptatious days of easy earning and riotous spending.

At Home

AND the place to concentrate new business efforts is in the home. This can be done in many ways—through advertising in newspapers that go into the homes; through interesting illustrated messages that do not preach but subtly suggest the advantages of wise spending and common sense saving—distributed regularly and directly in the homes; through letters to present depositors; in certain cases through house-to-house solicitations of accounts.

At all times, but especially in this depression time, it is highly important to make personal contacts with individuals.

The voice of the savings bank appeal has been a still, small voice during our years of false prosperity. It has been all but drowned by the raucous din of "buy this, buy that; spend, spend, spend." A thousand barkers have called their wares and their side shows. A thousand selfish voices, loud as Stentor's, have dinned their appeals for extravagance in the ears of millions of workers who were making good wages. One little voice has whispered "save a part of what you earn for future needs." I can account for that voice being heard at all only by the common sense and natural self-protective instincts of the masses who have their ear nearer the ground because of their toil and humble station than those in more exalted and blue-sky positions. Millions even in those fool's paradise days heard the small voice and saved billions for the future.

Five Conditions for Recovery

By LEONARD P. AYRES

A Factual Answer to the Universal Question, "How Long the Depression?" and a Few Suggestions for Speeding Its Exit.

AS we enter this third year of the depression we have in this country a national debt of some $17,000,000,000 if we include, as perhaps we ought, about $12,000,000,000 of our war loans to other nations on the theory that we must ultimately assume them. Our municipal and state debts are in the aggregate not greatly smaller than our national debt. We owe perhaps $40,000,000,000 on real estate mortgages, and as much more on corporate mortgages. Our installment debts are another $4,000,000,000 or $5,000,000,000 and our bank indebtedness about $35,000,000,000. If we leave out of account miscellaneous personal debts and running accounts at stores, we probably owe sums that amount in the aggregate to $1,200 apiece for all the individuals in our population. Perhaps our debts are equal to half of our national wealth. This is our overdraft against national savings. We have mortgaged future income for present satisfactions, and now the future is here. Probably we should be justified in characterizing this as a debt depression, while recognizing the fact that it is also a price deflation depression.

Two Similar Periods

THERE have been two somewhat similar depressions in our past history. The first came in the 40's and lasted six years. It followed a period of great credit inflation and of unrestrained speculation in land. Wholesale prices declined 39 per cent as compared with the drop of 39 per cent in this depression. The Bank of the United States failed. Some 33,000 merchants failed with liabilities of $440,000,000.

A long list of states repudiated their debts. The worst offenders were Mississippi, Louisiana, Maryland, Pennsylvania, Indiana, Illinois and Michigan. Later on all of them except Mississippi paid in whole or in part. In 1842 there were widespread demands that the Federal Government should assume all state debts, but legislation providing for this failed to pass. Laws were passed in the western states to prevent property being sold for debt. Many states passed what were known as extension laws by which the payment of debts was postponed. In 1841 Congress passed the Bankrupt Act by which any person could become free from debt by assigning his property. Many thousands took advantage of its provisions, but it was found that doing so ruined a businessman's credit, and the act was repealed after two years.

Our other debt depression came in the 70's, and it also lasted six years. Commodity prices declined 39 per cent, as they did in the 40's, and as they have in this depression. The Stock Exchange closed for ten days. More than 50,000 firms failed, and most of the railroads went into insolvency. Interest was defaulted on upward of $1,000,000,000 of rail bonds, about one-third of which were owned in England. Ten states repudiated state bonds of a value of about $160,000,000. Congress passed a greenback inflation bill, but President Grant vetoed it. That depression also followed a period of great credit inflation and speculation, and it was increased in severity by the deflation caused by the return to the gold standard which had been suspended during the Civil War.

We cannot know how long this depression will last, but one thing about which we may be fairly sure is that it is not yet half through. Commodity prices have been falling, and business activity has been declining for well over two years. The long history of previous business depressions in this country shows that recovery has almost always been a slower process than decline. Since decline has not yet stopped, it seems probable that the return to normal levels of business will take more than two years after it gets under way, and we do not know when that will be.

> "ONE thing that is almost sure about 1932 is that it is going to be the transition year of this depression. The new order of affairs is as yet undefined, but will clearly be very different. Whatever developments 1932 may hold in store, they will plainly have a new economic significance."

Prospects for Price Recovery

A PROMPT recovery in general price levels seems unlikely. The gold to which prices are tied is abnormally distributed among the nations, and that maldistribution is not yet in the process of being cured. Among the factors which contributed to it are tariff barriers, and the war-debt payments that do not correspond to the normal balances of international trade. A prompt solution of those difficulties does not appear to lie within the probabilities of political realities. Moreover much of the expenditure of the prosperity period was imprudent, and many of the debts created were ill-advised. The folly of those years is still far from being liquidated.

Neither does it seem likely that success will attend any attempts that may be made by government to recreate prosperity by some single act of legislation. The great public works programs that are advocated would increase our unproductive possessions and greatly add to our debts, but this would not remove the causes of our difficulties. They would not diminish trade barriers, or reduce war debts, or redistribute gold, or restore price levels. We squandered our way into this depression, but we cannot squander our way out of it. As the recent Macmillan report observes, there is no known way by which we can spend ourselves rich.

What then can we do. Must we decide there is nothing we can do but do nothing? The answer is "no." As a nation we are not yet resigned to a defeatist policy. One thing that is almost sure about 1932 is that it is going to be the transition year of this depression. During 1930 and 1931 we have been sliding down a long economic decline from the old order of continuous prosperity to a new order of affairs that is as yet undefined, but which will clearly be very different. Whatever developments 1932 may hold in store for us they will clearly have a new economic significance.

If price deflation and credit contraction should continue at recent rates for many months into 1932, much business wreckage would result, and a good deal of it would be unnecessary. Even at the worst the nation would still emerge with its institutions functioning. It never happens in the very worst of depressions that all the banks close, or all the railroads fail. Some corporations still survive, and some of the states and municipalities come through without default. The prospect we have to consider is not that of economic collapse. Our problem is rather that of deciding on the point from which economic reconstruction can begin, and of choosing the foundation on which to build.

Prerequisites of Recovery Drive

MY own belief is that we are reaching a point where we may begin to formulate the conditions that may be truly regarded as the prerequisites for launching a recovery drive. Perhaps they may be stated as five propositions.

The first is that deflation has gone far enough to create a new and lower price basis on which the turn can be made. Commodity prices have fallen to their pre-war levels. They have fallen 39 per cent as they did in the great debt and price depression of the 40's, and in that of the 70's. A continuous index of rail stock prices shows a decline of 75 per cent in this depression, one of 59 per cent in the 40's, and one of 57 per cent in the 70's. Average railroad stock prices are now down to the levels reached in 1877 and in 1839. Rail bonds have fallen almost as far as they did in the depression of the 40's, and far more than they did in the 70's.

The second proposition is that we do not have to wait for Europe in order to begin business recovery here. The declines in commodity prices and the disruption of international trade are largely due to causes that no single nation can control, but that does not mean that we can postpone our efforts until other nations agree about reparations, war-debts, tariffs, and gold. The hardships of depressions are largely caused by price declines, and not by low levels of prices. We have suffered from the declines, and partly adjusted ourselves to the new low levels. Now we can go ahead once more, not at full speed, but more rapidly than we have been going lately, and we can do so despite the shrinkage in our export trade.

"THE hardships of depressions are largely caused by price declines, and not by low levels of prices. We have suffered from the declines and partly adjusted ourselves to the new low levels. Now we can go ahead once more, not at full speed, but more rapidly than we have been going lately, and we can do so despite the shrinkage in our export trade. We do not have to wait for Europe to begin business recovery here."

The Reconstruction Act

THOSE two propositions concern prerequisites to recovery that are already in being. The third requisite, too, has just been met by Congress in the passage of the act which created the Reconstruction Finance Corporation. This organization is starting with an appropriated capital of $500,000,000, and power to increase it by the sale of its obligations to $2,000,000,000. It has been granted broad and flexible powers similar to those of the War Finance Corporation, which was most effective in the last depression. It will be able to make loans to the railroads, and to prevent defaults by other solvent corporations unable to get bank accommodations because of the existing credit stringency. In general it will be able to step in and buttress the foundations of threatened business structures wherever that might be in the public interest. It is planned to be an active force for credit expansion, and operated not for profit.

As the fourth requisite I should advocate giving the Federal Reserve System broader and more flexible powers. I believe the officers of the Reserve banks should formulate the changes that they believe they need in the existing Reserve legislation in order to serve most effectively, and that Congress should grant them those powers at least for the period of this emergency, and look to them to use them wisely. Among those new powers should be that of rediscounting the debentures of the new Reconstruction Finance Corporation.

Finally we need from Congress and the Administration an early and definite policy of limitation of Federal expenditures. The prices of Government bonds are steadily falling. The banks have heavy book losses on those they hold, and are becoming increasingly unwilling to subscribe for more until they know whether the additional issues this year are to amount to $1,000,000,000, or $3,000,000,000, or $5,000,000,000, or some other total. We need rapid progress toward a balanced national budget, but in order to create healthier credit conditions we are even more sorely in need of a declaration of the limitations within which Federal borrowings will be held in 1932. While the Congress is considering these matters it might do well to follow the example of the railroad brotherhoods, and to legislate for a flat decrease in all government salaries and wages.

Five Propositions

LET me sum up all this by noting that in the years since the beginning of the war we have piled up an enormous indebtedness which has been followed by a great debt and price deflation depression. Twice before in earlier years we have experienced similar depression. They came in the 40's and in the 70's, and were the longest and most severe in our history. They were characterized by great financial and business wreckage, and by many and varied forms of debt repudiation, default, and postponement.

This depression is following in many respects the pattern of those earlier ones, and if we are to escape similar consequences it behooves us now to discover and point out the requisite conditions that would make possible the beginnings of recovery. Five propositions are suggested as the outline of such a formulation:

Deflation has gone far enough.

We do not have to wait for Europe.

Congress should do nothing to interfere with the smooth functioning of the Reconstruction Finance Corporation.

The Federal Reserve System should be given broad emergency powers.

Congress should quickly adopt a definite budget.

The Glass Bill Is a Medley

By GEORGE E. ANDERSON

Suggests Changes Directly Opposed to Long-Standing Practice. Original Draft Back to Subcommittee for Possible Revision.

WHEN Senator Carter Glass of Virginia offered a bill in the last Congress of the United States to make certain changes in the banking laws of the country, he stated that his measure was intended to be the foundation of a general investigation and discussion of the banking situation. That investigation and that discussion have been going on in and before a subcommittee of the Senate appointed for the purpose under the Virginia Senator's chairmanship most of the time ever since.

The result of this subcommittee's work is now before the country, and if one may judge from the manner of its reception, the discussion in the future is likely to be far more general, acrimonious, and perhaps illuminating, than it has been in the past year or so. The Glass bill will be a highly controversial measure. It involves policies of great moment directly opposite to those which have been followed for years; it proposes some things which many people do not want and it fails to propose others which other people want. It certainly will be a "basis for discussion," for the distinguished senator from the Old Dominion has started something.

Control of Credit

THERE is one dominant idea in this Senate bill. That idea is the control of credit in the country in such a way as to prevent its use for stock, bond and similar speculation. The matter is approached from two angles. Control of general credit conditions through open market operations is to be taken from the New York Reserve Bank and put into the hands of all Reserve banks.

Heretofore, open market operations have been conducted under the control of a committee appointed by the New York bank with the assent of the other Federal Reserve banks. The bill provides that in the future these operations are to be conducted by a committee composed of representatives of each of the twelve Reserve banks. This control of general credit conditions is carried further by the elimination of the Secretary of the Treasury as an *ex officio* member of the Federal Reserve Board. The Secretary is believed to be *ex officio* an exponent of the "easy money" policy.

Control of the use of credit for speculation is to be secured by giving the Federal Reserve Board the power to fix for each Reserve district the proportion of capital and surplus of each individual bank, not to exceed 10 per cent, which may be loaned on collateral by member banks within the district with the view of preventing the undue use of bank loans for the speculative carrying of securities. The Board is to have power to direct any member bank to refrain from further increase in its security loans for any period up to one year under penalty of suspension of all rediscount privileges with the Federal Reserve.

As a sort of blanket to cover the whole proposition, the bill provides that the discounts, advances and accommodations granted member banks by the Reserve banks shall be given only if they are intended for the accommodation of commerce, industry and agriculture, and that they shall not be extended for the purpose of making loans to carry investments or facilitate the carrying of or trading in stocks, bonds or other investment securities except government obligations. Member banks also are prohibited from making "loans for others" on call for speculative purposes, thus giving legal form to the rule already adopted by the New York Clearing House banks.

The bill also goes into the matter of regulating any part the Federal Reserve may have in foreign loan flotations or financial dealings with foreign bankers. The measure requires that hereafter Federal Reserve banks shall secure the permission of the Federal Reserve Board before entering upon any financial transactions whatever with any foreign bank or banker either in the matter of new loans or renewals of former loans, and that a full report on all such negotiations shall be filed with the Federal Reserve Board by all representatives of Federal Reserve banks engaged in such negotiations.

Credit Base Is Narrowed

RESTRICTIONS as to the use of Federal Reserve credit also are carried into the granting of credit, and instead of a "broadening of the base" of reserve credit called for by the President and an insistent school of economists in the country, the bill actually narrows it. It is provided that in times of emergency groups of member banks may be formed in any Reserve district which may agree to endorse, jointly and severally, notes secured by collateral not now eligible for rediscount at the Federal Reserve but at a progressive rate of interest which shall not be less than one half of one per cent for the first ninety days and increased by 50 per cent for each additional ninety days, and these notes thus discounted may not be used as collateral for the issue of Federal Reserve notes. All other forms of borrowing, except on liquid commercial paper, are discouraged.

The bill provides that member banks' privilege of borrowing from the Federal Reserve on 15-day promissory notes secured by Government obligations is to be continued, but only at a rate of interest at least 1 per cent above the current rediscount rate. Nor can these notes, thus secured, be used as collateral for the

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Not One Depression But Two

By ALEXANDER DANA NOYES

Second Half of 1931 Marked Transition from Initial to Second Phase of Downward Movement.

WHY, when American finance and industry had passed through the preliminary shock of Stock Exchange panic in October, 1929, and of industrial fright in June and September of 1930, and were apparently recovering slowly in the first half of 1931, should a new and apparently worse shock have been precipitated? That is what gave the darkest color to the atmosphere of discouragement at the end of 1931.

One answer to this question is that the world has been confronted during this two-year period not with one panic and its resultant industrial, financial and psychological crisis, but with two distinct panics, each accompanied by its own particular and characteristic series of results. I refer to the financial breakdown which occurred in the United States in the autumn of 1929 and the financial breakdown which occurred in Europe in the summer of 1931.

New Set of Factors

HOW distinct these two episodes were may be judged not only by the facts that the foreign markets were themselves slowly improving during 1931 until the shock of the bank run on Berlin started panic, and that the New York stock market on the average declined only 4 per cent in the first half of 1931 and the bond market barely 1 per cent, whereas in the second half the Stock Exchange fell 48 per cent and the bond averages 24 per cent. That of itself was striking enough.

But the fact that a totally different set of influences, a totally different set of causes and phenomena prevailed in the second chapter of depression from those which had prevailed in the first, is proved by other considerations. By the end of 1929 and the middle of 1930, discussion of the situation pivoted wholly on American affairs. After last June, the condition of Europe and of the outside world in general was the sole consideration. Our own situation and outlook were discussed after last June only as they were considered to be affected by these foreign developments.

This is not the first occasion on which a period of depression has been similarly characterized by two separate crises of different character, originating in different quarters of the world. In the nineties, London was confronted with panic of the first order in September of 1890, when the great house of Baring Brothers would have gone down in a hopeless crash, carrying a long line of other great institutions with it, if the Bank of England and the London joint-stock banks had not taken over the Baring assets as the Austrian national bank and the Austrian Government did with the Rothschilds' Kreditanstalt last summer.

A period of trade depression and hard times followed in England; in 1891 her investors were able to take barely one-half the amount of new securities subscribed in 1890. But the United States of that day, after the first shock of the London news, began to recover. It was not until three years later, when financial England was getting on its feet again, that we were swept down in the panic of 1893, the immediate causes for which were of purely American origin. But the result proved a secondary and severe shock for London; in some respects similar to our own experience of last year.

One Important Difference

PERHAPS it will be said that such division of the reactionary period merely means that the troubles which were first felt in one country had extended, though only after much delay, to the rest of the world. In this there is considerable truth. But the course of events on that older occasion differed at least in this respect, that after the panic of 1893 British capital came to the relief of the United States and in two years was supporting our markets and pulling our finances rapidly together again. Why did not the same thing happen when Europe was in trouble six months ago? We ourselves were then the world's center and our own crisis a year and a half behind us.

The answer is not difficult, and it throws some light on the matter of the present situation in this country.

By the nature of the case, American capital and the American market will eventually come to the relief of Europe on this occasion, as Europe came to our relief in 1893 and 1895. But so far as concerned our immediate position, whether for recovery at home or for the extension of relief abroad, we had crippled ourselves by what we did in 1928 and 1929. Not only did our speculating public of those years exhaust its own resources and plunge itself into debt at the highest

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The Recent Panic

A Brighter Outlook For the Railroads

BY WILLIAM WALLACE ATTERBURY

Important Progress Being Made Toward Reducing Operating Expenses and Preserving Credit.

General Atterbury

WE are all interested in the prosperity of our country. Of course, from my standpoint, we are never going to be prosperous in this country until the entire international problem is settled; but America cannot do that all by herself.

There are, however, certain things that we in this country can do to help ourselves. If I refer to the troubles of the railroads, I want to emphasize that the railroads are merely the tool of agriculture and industry, and that the things that injure agriculture and industry likewise injure the railroads.

Sherman and Clayton Acts

COMPETITION in this country has reached the limit. There is not an industry that is not suffering from intense competition, whether it be the textile trade, the steel trade, or any other that can be named. We are tied down through the workings of the Clayton Act and the Sherman Act so completely that no corporations engaged in the same line of industry are permitted to make trade agreements. Until the Clayton Act and the Sherman Act are both materially modified, industry is not going to be put in the position where it can manufacture at a reasonable profit.

The next situation that is troubling this country is the condition of credit. The trouble with credit today is the lack of confidence. It starts with the individual depositor and carries on to the bank. I happen to be a director of three very large banks and in a position to see what is going on. I am obliged to approve of the actions which are taken, in view of my responsibility as a director. Yet I also realize the effect they sometimes have on credit.

The extreme liquidity of our large banks has been rendered essential by the lack of confidence on the part of the depositors. There are today something like $57,000,000,000 of deposits in the various banks of this country. I assume, judging by the affairs of the banks with which I am acquainted, that there has been an increase in liquidity equal to at least 25 or 30 per cent of the deposits in the last year and a half. If that be true, and I believe it not only to be true but quite conservative, then at least sixteen or seventeen billions of dollars have been taken out of circulation, so far as credit to industry is concerned, and hoarded just as effectively as if people had taken it home and put it between their mattresses. I cannot blame any one of the banks. We have all gone through experiences such as I hope I shall never have to go through again. But the effect has been to increase the difficulties under which we all have been laboring.

Securities Sacrificed

IN the life insurance business, the demands for advances on policies have been large. That has meant throwing on the market securities that were perfectly good, and yet which found no takers at prices which could be considered at all normal.

It seems to me a radical change in the banking business has come over this country in the last few years. The old note broker is nearly a thing of the past. In the former days, in Philadelphia, we served some thousand or fifteen hundred banks in the outlying districts. They would telephone in and want to buy some notes. Those notes are almost gone today. Hardly anyone uses notes now, or, if so, only to a relatively small extent. Our big mercantile houses which used to be large users of seasonal money, turned instead to the use of their own money by the issuance of preferred stock or bonds, and rather than being borrowers they became lenders of money.

That further complicated the situation, and our big banks and our country banks were forced to make investments that could not be rediscounted at the Federal Reserve Bank, and, necessarily, in times of emergency such as we have been going through, became frozen.

When the National Credit Corporation was first established, I made the remark, and I still believe I was right, "That isn't going to help the situation, because if the $500,000,000 of the Credit Corporation are used up the banks are going to be that much worse off." Therefore, some active steps should be taken to enable the Federal Reserve to re-discount certain securities and paper that are not now eligible for re-discount under existing law. It is true that the Credit Corporation has saved some banks, but if my recollection is correct calls have been issued for only 30 per cent of the original $500,000,000, and such restrictions were put on the use of the funds as to make it almost impossible, in times of emergency, to save a bank.

Reconstruction Program

NOW there has come into existence the Reconstruction Finance Corporation. Its resources will be available for many situations, and it will be very helpful. The weakness of the plan under which it is to operate, however, from my standpoint, is that while the initial capital of $500,000,000 will be obtained by the sale of United States bonds, the debentures to be subsequently issued cannot be used for rediscount at the Federal Reserve, nor can they be purchased by the Federal Reserve. Therefore, after the $500,000,000 are exhausted the result will be that no matter what happens the money will have to come out of the banks, the liquidity of which we are still trying to maintain.

Hence, in that respect, I am afraid the Reconstruction Finance Corporation, as at present designed to function, may be not as helpful as I had

originally hoped it would be. Of course, the answer to all this is that the powers of the Federal Reserve will have to be materially extended if we want to maintain the liquidity of our banks.

The question of tariffs is one of the fundamental troubles today. Here is an instance: With England going off the gold standard, steel and coal are pouring into this country at figures with which home industry cannot possibly compete. While we have a Tariff Commission, and the law, I think, permits a variation of perhaps 50 per cent of the original duty, unfortunately, if there happens to be no duty on a given commodity, there is no means by which one can be applied in order to meet a situation such as exists today. And, in the case of steel, even the 50 per cent would not be sufficient to protect our own industries. There being no tariff on foreign coal, legislative action is necessary before it can be protected. The same thing is true of oil, which is coming into this country from Venezuela and some of the other countries and interfering materially not only with our own oil business but with our coal business as well.

Non-Political Tariff

UNTIL the tariff situation is dealt with adequately, making the schedules flexible, putting them under a Tariff Commission, and taking them entirely out of the realm of politics, I am satisfied that the sound requirements of our tariff policies will not be properly met.

Taxation, of course, is always with us. Yet it does seem to me that with respect to national, state and municipal taxation alike, we are passing through an orgy of expenditure, and until we realize that we must save, not only in our private lives, but in the conduct of our public affairs as well, I doubt that we are going to get on our feet. So much for the general situation.

The condition of the railroads, as I have indicated, is largely dependent upon the state of prosperity of the country as a whole. If industry is not prosperous, the railroads are not going to be prosperous. Yet, I think the railroads are beginning to get on their feet better than industry is today, because I really feel that there has been a change in public opinion during the last few years that is just now bringing about some of the results to which we have all been looking forward.

Turning to the question of competition, we have the busses and the trucks. Of course, a great deal of opposition is being encountered in the efforts to bring the busses and trucks under Federal regulation with the railroads. Yet state regulation of the highway carriers is progressing independently. Fortunately, the Interstate Commerce Commission has made definite recommendations on the question of bus regulation, and the report of its attorney-examiner, Mr. Leo J. Flynn, contains important recommendations to the commission on the regulation of the truck industry and the equalizing of regulation between highway carriers of all kinds, operating for hire, and the railroads.

Perhaps some of the worst competition that the railroads have to face is that of the water carriers, and here we have even more difficult questions to handle. The Panama Canal was a great thing for our country, entirely apart from its value for defense purposes. But, unfortunately, when the so-called Panama Canal Act was passed, someone put into it a rider which prevented the railroads from participating in the coastal, the inter-coastal, and the Great Lakes shipping trade, despite the fact that any ship carrying the American flag, but not owned by a railroad, may operate between our ports.

Inland Waterways

WHILE the rates are ostensibly regulated by the Shipping Board, the only requirement is the filing of maximum rates. No precautions whatever are taken against rates which may be unsoundly low. The result is that any ship plying between American ports is free to cut rates at will and to any extent desired. The effect of this has been practically to destroy the coast-to-coast traffic of our great transcontinental rail lines. The result to industry is that no shipper on the Atlantic coast or on the Pacific coast knows today what his neighbor is getting in the way of a rate. One ship owner will quote a rate on lumber, for instance, that a competing shipper in the lumber business would not know about. The latter in turn, when he senses the situation, quotes unsoundly low prices on lumber hoping to meet

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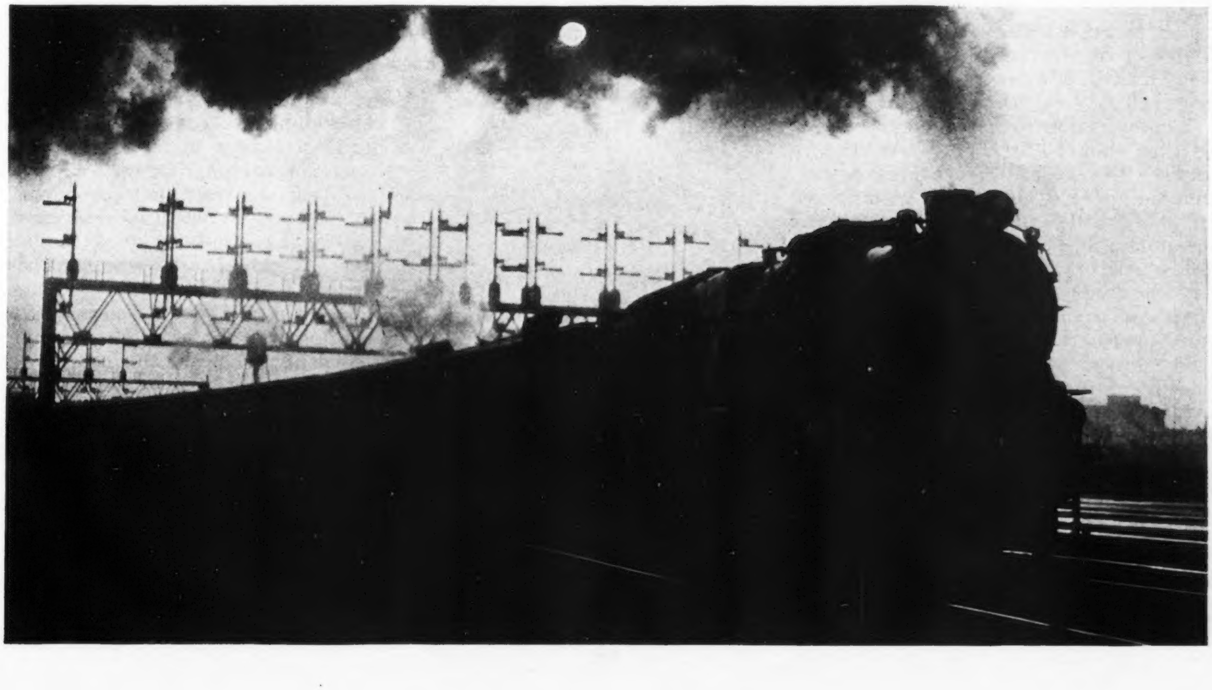

No Bank Stands Alone

By W. A. McDONNELL

Intelligent Cooperation an Economic Necessity. Profit Producing Policies Possible Only by Working Together.

TO say that cooperation is an economic necessity is but to state a truism. It is so self-evident that it would seem to require no discussion to prove its soundness. Cooperation is not only an economic necessity, it is a social necessity.

It has been well said: "The story of advancing civilization is mainly the record of mankind's enlarging capacity to cooperate. From the days when humanity began, not with a solitary individual, but with a unit of three—father, mother and child—to the days when internationalism becomes a live issue and increasing numbers of people think in planetary terms, we can mark the major changes that have passed over human life in terms of cooperation, its enlargements and lapses, its victories and failures. In our time the whole structure of human life is so intricately interrelated, men, no matter how various their colors, customs or habitats, are so inextricably interdependent that the problem of cooperation has become supremely the critical question of the world."

Division of Labor

OUR whole industrial system is founded on division of labor, which is impossible without a high degree of cooperation between the various classes of workers and various geographical sections.

Is cooperation an economic necessity for banks? Strange to say, the banking system of this country has endured for over 100 years with remarkably little cooperation between the units comprising the system. This lack of cooperation has been due in a large measure to the unhappy phrase "independent unit system" by which our American banking system has been characterized. The unhappy portion of the phrase is the word "independent," for independent means separate, self-directing, alone. Perhaps the very nature of the origin of the United States has caused us to place undue emphasis on independence. Ever since July 4, 1776, in story and in song we have praised its blessings. Entangling alliances with other nations have been denounced and the independence of states gave rise to a fratricidal war. Even a virtue can become a vice when carried to literal conclusions.

The truth of the matter is that, in this twentieth century civilization, complete independence is impossible. It is impossible for nations. The war taught that and it has been more forcibly impressed upon the country by recent financial events in England and on the Continent. The sound of the cannon in Flanders fields reverberates in Nashville, Tenn., and a financial collapse in Berlin is felt in Little Rock, Ark. Cooperation among nations has indeed become an economic necessity. Statesmen, scientists and financiers alike agree that another world war would not only bankrupt the world but would probably wipe out our civilization.

Complete independence has proved impossible as between states, as witness the highly centralized powers we have given our Federal Government as a result of our experience in democracy. The powers of the President and Congress today are enough to make the former advocates of "states rights" shift uneasily in their graves.

No Independent Banks

WHAT is true of nations and states is true of cities, communities and individuals, and it is especially true of banks. No bank today can be completely independent of all other financial institutions.

Much has been said and written in the past few years about branch banking and group banking on the one hand as distinguished from unit banking on the other. It has been the subject of discussion at hundreds of conventions and the pages of financial magazines and journals have been replete with the argument over the virtues and faults of the respective systems. Many of the leading bankers of this country have prophesied that the unit system is outworn, antiquated and unsound in this swiftly moving economic age. They have said it must go, that it cannot provide the financial fuel to run the wheels of our mighty engines of commerce and industry. To reopen that argument does not lie within the scope of this discussion. Suffice it to say that whether or not the unit system of banking will eventually pass into obsolescence, one thing is certain—the independent unit system, as meaning a system of separate units going it alone, most certainly is fast becoming a system of the past.

Public Has Stepped In

WE can no longer continue independent of our fellow units. Cooperation among banks, just as among nations, has indeed become an economic necessity. The trouble with American banking today is that we have been so afraid that our competitor bankers would run our business that we have lost sight of the fact that something far worse has been happening and that is that the public has been running it. Some may contest this statement. A few examples are enough to prove the point. For example, there is no banker who will accept a savings deposit without reserving the right to require at least thirty days' notice of withdrawal and there is not a banker who would dare enforce the right, except in a most extreme crisis; although there is not one who has not within the past twelve months wished to high heaven that he might do so. In regard to this

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How Uncle Sam Pays the Piper

Borrowing for Every Day Living Expenses Is Not Good Finance for a Citizen or a Government.

"THE government spent its way into a deficit. It can emerge only by economy and sound fiscal methods." This is the dictum of a committee of the Chamber of Commerce of the United States. Everybody understands the meaning of economy. What sound fiscal methods may be under the present situation of the nation, however, is not so certain. Taxes or bonds? Unfortunately it must be both; and always economy. What is now bothering the Congress of the United States is the proportions of these three elements in the mixture which it is to apply to the country.

$4,625,000,000

TAX figures in the United States are large figures; this is a large country. If any one is disposed to question this premise let him consider the size of the national deficit contemplated by the Federal Treasury by the 30th of next June. It is $2,123,000,000—unless it can be cut down a little by increased taxes during the current fiscal year. Some $903,000,000 of this is the hang-over from last year. According to the official forecast in the budget the deficit for the next fiscal year, that ending June 30, 1933, will be $1,417,000,000.

In addition to these actual and contemplated deficits the Federal Treasury is faced with the necessity of financing more than $800,000,000 of veterans' adjusted compensation loans. To this must be added the appropriations already made of $500,000,000 for the Reconstruction Finance Corporation and $125,000,000 for the Federal land banks. Even without the appropriation of $200,000,000 as a liquidation fund for the relief of depositors in defunct banks, almost certain to be made under the recommendation of the President either in the Glass banking bill or in the Thomas-Beedy bill, the total deficit promised is $4,625,000,000. That is $38.54 per head of population or $192.70 for each family of five in the country.

One can see that this tax and deficit business is a matter of rather poignant personal interest to every one. This deficit means that without an increase in taxes or a decrease in expenditures—or both—the public debt of the United States would be increased by over $4,500,000,000 in 24 months. That would be bad for the bond market.

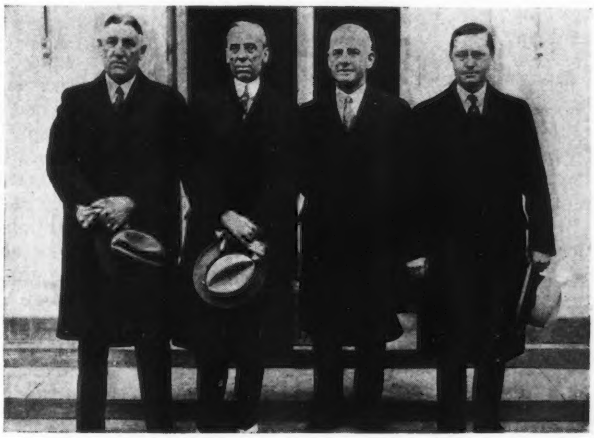
Not a Bond Emergency

NO doubt this increase in the public debt could be arranged; certainly in war time it has been done and could be done again. But this is not war time. Nor do the public authorities of the United States think it is necessary. There is a certain amount of emergency in the situation but it is not a bond emergency—at least to no greater extent than necessity forces upon the country. For example, $350,000,000 of the increased expenditures for public building and construction is an emergency measure to furnish employment and stimulate trade; $500,000,000 for the Reconstruction Finance Corporation represents an emergency in finance; $125,000,000 for the land banks probably may be counted as an emergency allowance—at least $1,000,000,000 of the whole deficit is for emergencies. But the bulk of it is for ordinary expenses of government, the result of continued high costs of government in the face of a fall in revenues due to business depression.

This, the Federal authorities urge, is plain running expenses of the Government which should be handled upon a pay-as-you-go basis exactly as the common sense thrifty average citizen expects to pay his living expenses. Borrowing for every day living expenses is not good finance either for a citizen or a government.

Hence the necessity for economy—and taxes. The Federal administration has inaugurated the economy program by paring down proposed expenditures under the budget to what it considers the lowest practicable limit. Its proposed savings in this direction are lost in the increases made necessary by proposed relief measures but they are substantial—$365,000,000 in the budget estimates. Further reduction must be made by Congress and herein has appeared much difference of opinion and, unfortunately, a certain measure of politics.

In the matter of increased revenue there is also much difference of opinion and some politics—on the whole much more difference in honest opinion than politics. First of all there is the Treasury, or administration program. This contemplates an increase in individual and corporation income taxes, the imposition of certain renewed or additional miscellaneous taxes, an increase in the estates tax and an increase in postal revenues to cover the increased deficit in that great department of the public's business. In the income taxes the normal rates are to be fixed at 2, 4 and 6 per cent instead of the present 1½, 3 and 5 per cent; surtax rates at 1 per cent, begin-



Four automobile manufacturers leaving the White House after urging President Hoover to resist the proposed tax on new motor cars—W. C. Cowling of Ford, Alfred P. Sloan, General Motors, Alvan MacCaulay of Packard and Roy D. Chapin of Hudson.

ning with incomes over $10,000, graduated up to 37 per cent on incomes between $100,000 and $200,000, and reaching 40 per cent on incomes in excess of $500,000 as compared with the present maximum rate of 20 per cent on incomes in excess of $100,000. Personal exemptions are to be fixed at $1,000 and $2,500 with a credit of $400 for each dependent.

The earned income provisions of the revenue act of 1928 permitting larger deductions in respect of earned income than were permitted by the act of 1924, under the plan, will be continued. The corporation income tax is to be increased from the present 12 per cent to 12½ per cent and the present exemption of $3,000 on corporations with net incomes of $25,000 or less will be eliminated.

The estates tax is to be based on the tax rate of 1921 by means of a supertax on present rates so as to avoid state tax complications, the actual rates to be graduated from 1 per cent on the first $50,000 up to 25 per cent on estates in excess of $10,000,000.

Tobacco, Radios and Motor Cars

IN the way of miscellaneous taxes additional revenue is to be secured by an increase of one-sixth in the present rates on tobacco manufactures and products except cigars; an increase of 1 per cent in the existing stamp tax upon sales or transfers of capital stock; extension of the present tax on admissions through the reduction of the present exemption to 10 cents; a tax on manufacturers' sales of automobiles, trucks and accessories at 5, 3 and 2½ per cent, respectively; a stamp tax on conveyances of realty of 50 cents for each $500 of value in excess of $100; a tax of 5 per cent on manufacturers' sales of radio and phonograph equipment and accessories; a stamp tax of 2 cents on each check and draft, and a tax on telephone, telegraph, cable and radio messages of 5 cents for charges in the amount of 14 to 50 cents, and 10 cents for charges in amounts in excess of 50 cents. Postal revenues are to be increased by raising the first class or letter rate from two to three cents with slight upward changes in second class rates.

The result of this program, according to Treasury calculations, would be an increase of $390,000,000 in the current half year and $920,000,000 in the fiscal year commencing on the 30th of next June. The increases in the next fiscal year would include $60,000,000 in corporation income taxes; $185,000,000 in individual incomes; $11,000,000 in estate taxes; $58,000,000 on tobacco manufactures; $15,000,000 each on conveyances and stock sales; $121,000,000 on automobiles and accessories; $135,000,000 on amusement admission taxes; $20,000,000 on radios; $55,000,000 on telephone and telegraph messages; and $95,000,000 on checks and drafts. The total is $770,000,000. With $150,000,000 additional revenue in the post-office the increased income would be the $920,000,000 contemplated.

Billions In More Bonds

ASSUMING that the national revenue is thus increased in the rest of the current fiscal year and in the fiscal year ending a year from next June by $1,310,000,000 and national obligations entail a deficit of $4,625,000,000 on the basis of present revenues there is a difference of about $3,315,000,000 which must be covered by bonds or other Treasury borrowings.

That is a sizable sum and it is that sum which the Treasury places as the absolute limit beyond which the Government cannot go without impairing the credit of the country under present conditions. In fact the Treasury is convinced and Congress gradually is coming around to the idea, that prices of Government bonds cannot be measurably improved without a balancing of the budget. That is impossible for the present year; for next year the Treasury believes it is not only possible but also that it must be done.

The Economy Program

IT is evident that increasing the national revenue by $920,000,000 is not going to balance the budget in the next fiscal year in the face of a prospective deficit of $1,400,000,000. Therein comes the necessity of the economy program, involving, as Secretary Mellon put it, "not only self denial but some measure of sacrifice." Both houses of Congress are full of propositions along the lines of economy. There is, for example, the proposal of a group of House members to cut all budget expenditures by 10 per cent, but since almost half of the budget expenditures are for the service of the public debt and payments of pensions and other allowances for veterans this proposition is not considered practicable.

Then there is an increasing demand for a reduction in all Federal salaries sponsored particularly by Representative Will R. Wood, former chairman of the House Committee on Appropriations, and by Senator Borah. Representative Wood proposes a reduction of 5 per cent in salaries ranging from $2,000 to $5,000 per year and of 10 per cent on all salaries in excess of $5,000. Senator Borah proposes a cut of 6 per cent in salaries of from $5,000 to $7,000, 10 per cent in salaries between $7,000 and $10,000 and 20 per cent in salaries above $10,000. He estimates that his bill would save the Treasury between $200,000,000 and $225,000,000. Chairman Ross J. Collins of the House Committee on Appropriations for the War Department proposes to drop 2000 officers from the army by eliminating older officers and temporarily halting the induction of new officers, thus saving about $20,000,000 in salaries and allowances. The Committee of the Chamber of Commerce of the United States above referred to calls for the consolidation of the War and Navy Departments, the suspension of new naval construction, reorganization of Government bureaus, the curtailment of Federal grants to the states and a reduction in the Federal program for public construction as an unemployment relief measure.

Opposition to New Taxes

OF course, there is opposition to the proposed new taxes. Aside from the reaction naturally to be anticipated from adding 1,700,000 new taxpayers on the income tax list and the inevitable cry of anguished surprise from taxpayers generally there are organized movements in opposition from several important industries, notably the tobacco industry and the automobile industry with its ancillary oil connections.

The automobile manufacturers claim that theirs is a key industry and that the proposed tax will prevent that revival of the automobile trade which is expected to form the basis for much recovery in other lines. The tobacco industry—well, the tobacco industry simply does not want to pay the additional tax. Opponents of the increase in postal rates claim that the increase will so reduce the volume of mail matter moving that the change will produce no increase in revenue, while the organization of postal clerks claims that the reduction will be great enough to lead to unemployment among its members. The Ways and Means Committee of the House has already gone on record against the increase in postal rates but the subject will be brought up in the Senate.

Then there are proposals for other taxes, notably a sales tax. Such a tax has been considered by the Treasury

(Continued on page 516)

Decision Against Multiple Inheritance Taxation

By THOMAS B. PATON

Non-Resident Decedent's Stock in Domestic Corporation Subject to Tax Only Where Decedent Domiciled.

THE recent decision of the United States Supreme Court in First National Bank of Boston v. Maine (Jan. 4, 1932) holding that the transfer of stock of a domestic corporation owned by a nonresident decedent is subject to inheritance tax only in the state of the decedent's domicile and that such stock cannot be subjected to taxation a second time in the state of incorporation, is of tremendous importance to corporate trustees as settling a question upon which, heretofore, there has been some doubt.

A *Previous Decision*

IT was at one time held by the Supreme Court of the United States (Blackstone v. Miller, 188 U. S. 189; decided in 1903) that intangibles owned by nonresidents were subject to inheritance taxation in more than one state; that is, the transfer was taxable not only in the state of the decedent's domicile but also in the state where the intangible had its situs. It was entirely possible under this ruling that the transfer of intangibles in the form of bonds or other evidences of indebtedness might be subject to inheritance taxation in four states, according to different views adopted by the courts concerning the situs for taxation, namely (1) the domicile of the decedent (2) the domicile of the debtor (3) the place where the instruments were physically present (4) the jurisdiction where the decedent had caused them to become integral parts of a local business.

This dangerous possibility of multiple taxation of the same subject led to a movement for and the adoption by a large number of states of reciprocal exemption legislation under which inheritance or transfer taxes upon intangible personal property of nonresidents was not imposed where the state of domicile of the nonresident decedent made similar exemption.

Then came Frick v. Pennsylvania, 268 U. S. 473 decided in 1925, which held (1) that a statute of Pennsylvania which attempted to tax the transfer of tangible personalty (as distinguished from intangibles) having an actual situs in other states contravened the Fourteenth Amendment and (2) that in so far as the statute required that stocks of corporations of other states owned by the decedent be included at their full value, without deducting the tax paid to those states, it exceeded the power of the state and thereby infringed the constitutional guaranty of due process of law but (3) there was no error in refusing to make any deduction from the clear value on account of the estate tax imposed by the United States.

In 1930 came the welcome decision of the Supreme Court of the United States in Farmers Loan & Trust Co. v. State of Minnesota, 280 U. S. 204 which definitely overruled the decision in Blackstone v. Miller, 188 U. S. 189 and held that where the decedent, while domiciled and residing in New York, had owned and kept within that state negotiable bonds and certificates of indebtedness issued by the state of Minnesota and certain cities therein, none of which had any connection with business carried on by or for the decedent in Minnesota and all of which passed under his will, which was probated in New York, where he died, the state of Minnesota could not assess inheritance tax on the transfer of such securities under the Fourteenth Amendment.

This decision still left open the question of the right of a state to impose an inheritance tax on the transfer of stock of domestic corporations owned by nonresident decedents. This question is now finally settled in the negative by the present decision. The rule announced in Farmers Loan & Trust Co. v. Minnesota is followed and applied to the case of corporate stock and the prior decision in the Frick case is distinguished so far as concerns the question of double taxation of corporate stock.

"ONE question is left open by the decision now rendered, namely, whether corporate stock may obtain a business situs in a state other than that of the decedent's domicile so as to be subject to inheritance tax in such other state. Upon this point the court says: We do not overlook the possibility that shares of stock as well as other intangibles, may be so used in a state other than that of the owner's domicile as to give them a situs analogous to the actual situs of tangible personal property. That question heretofore has been reserved and it still is reserved to be disposed of when, if ever, it properly shall be presented for our consideration."

A *Point Undecided*

ONE question is left open by the decision now rendered, namely, whether corporate stock may obtain a business situs in a state other than that of the decedent's domicile so as to be subject to inheritance tax in such other state. Upon this point the court says: "We do not overlook the possibility that shares of stock as well as other intangibles, may be so used in a state other than that of the owner's domicile as to give them a situs analogous to the actual situs of tangible personal property. (See Farmers Loan Co. case, supra, at p. 213.) That question heretofore has been reserved and still is reserved to be disposed of when, if ever, it properly shall be presented for our consideration."

The recent decision in First National Bank of Boston v. Maine will be welcomed by officials of trust companies and of banks exercising corporate trusteeships as clearing the law and removing the bogey of multiple taxation so long prevalent.

EDITORIAL

The Glass Bill

THE announcement from Washington that the Glass Bill to amend the Federal Reserve and national banking acts would be reported by the Senate Committee on Banking and Currency without giving bankers an opportunity to consider its provisions, has caused much concern.

The bill as originally introduced makes a number of fundamental changes in the laws governing banks. It contains many provisions which are open to objection and includes emergency legislation which might better be considered separately. For these reasons banks have asked for time to study the bill and submit their views.

Owing to the objections raised against its terms the bill has been returned to the subcommittee where, it is understood, material revisions are being made. Bankers hope that when the work of revising the measure has been completed, ample opportunity will be given the banks of the country to study its provisions.

The Dollar Votes

THE banks of New York have done an epoch-making thing. They have done something that the voters of New York have not been able to accomplish. They have compelled the application of some degree of economy to the administration of the affairs of New York City.

New York needed money and wanted a loan. The banks thought the city's overhead too high. New York was told so, just like any other bank customer seeking a line of credit. City officials squirmed. An appeal was even made to Congress for a loan from the Government but without result. New York had to meet the requirements of the banks.

The action of the New York banks, taken before it was too late, is of great significance to the taxpayer, to the investor and to the cause of efficient government. What the New York banks did others can do. Better city governments and better municipal bond value will be the outcome.

Thrift in 1932

THE importance of thrift will stand out this year more vividly than ever before. Not only is this true for individuals, but also for banks interested in the savings business.

As the recession in industry gained headway in 1930, it was found that greater buying power was available and being utilized in those areas where savings deposits were greatest. Time has emphasized that condition.

From the viewpoint of the bank the thriftiness of the individual is absolutely essential. Only recently has adequate attention been given to the lessening deposits in banks, although for the last four years the American Bankers Association has been pointing out statistically that demand deposits were declining, their volume now being less by more than $3,000,000,000 than in 1927.

All in all, the welfare of the individual and of banks in 1932 is based upon the degree to which the 40,000,000 Americans now employed in gainful occupations will add to their thrift and savings accounts during the year.

Ambassador Mellon

BANKERS regret the resignation of Andrew W. Mellon as Secretary of the Treasury, to become Ambassador to England. For eleven years Mr. Mellon has guided the Treasury policies of the Federal Government and his presence in Washington has been an important stabilizing factor throughout the difficult post-war period.

"The main thing," he said at his last press conference as Secretary, "is to be where you can be most useful. The main satisfaction is in carrying on a work where one can accomplish something: the translation of capacity into accomplishment." In London Mr. Mellon will face perhaps the greatest task of his career. The Hoover moratorium expires on June 30 and before that time the entire question of debts and reparations will require an answer.

Ogden L. Mills, who moves up from the post of Under Secretary to succeed Mr. Mellon, is eminently qualified by experience and ability to take the helm. During the past few years he has carried an increasing share of the Treasury burden on his own shoulders and has been in agreement with Mr. Mellon on the main items of Treasury policy. He is 47 years old and a man of great energy.

The Innocent Bystander

ON Jan. 9 Chancellor Bruening declared that Germany could not continue to pay reparations. One week later Premier Laval announced that France would relinquish no reparations without a corresponding remission of debts.

Taken together these statements reflect the European view that the United States should pay for the war. Without entering at all into the question of whether cancellation is a good thing or a bad thing for America, it is interesting to look back over the distance we have come since Archduke Francis and

his wife were assassinated, June 28, 1914, at Sarajevo, Bosnia; and to see by what path Europe has reached the amazing conclusion that she is fully justified in sending America a bill for the war.

When war broke out in 1914 America was puzzled, but too busy with her own affairs to be much concerned. Then came the declaration of war against Germany in April, 1917, and Europe felt that it was generous on the part of the United States to come over and help put out a fire which had been started by Europe's carelessness. Then, the Armistice in November, 1918, and almost two years later, the Reparations Commission assessed Germany with claims aggregating $31,416,000,000. France was to receive 52 per cent, the United States, nothing, and other nations were to get varying amounts in between these two figures.

In April, 1922, came the Balfour declaration that England would surrender her share of reparations on condition that all countries would agree to write off inter-allied indebtedness. In January, 1923, the French entered the Ruhr. In October of the same year the United States was invited to cooperate in the solution of Europe's financial problem. In April, 1924, the Dawes Committee report provided for payments of $1,918,000,000 by Germany for the period 1924-1929. In June, 1929, the preliminary report of the Young Plan provided total payments by Germany to the allies of $27,641,942,820 over the period 1929-1988.

That brings the record to last June when President Hoover announced a one-year moratorium. On Dec. 24, 1931, the Young Plan experts reported that Germany could not meet her reparations obligations. In January between the Bruening and Laval statements, the French treasury proposed to the British Government the annulment of conditional reparations provided the United States would cancel debts. On Jan. 14, there were press reports that Italy had suggested a concerted repudiation of all governmental debts to the United States. On Jan. 19 the Lausanne conference was postponed indefinitely.

Finally on Jan. 21 appeared an article in semi-official *Le Temps*, under the title, "America's Error and Germany's Fault," linking America and Germany as jointly responsible for Europe's predicament, with more than a hint that America is the chief culprit. The only step that remains is to prove that America should pay reparations to Europe.

TO CONGRESS

THE American Bankers Association, through its members representing the bankers of the nation, respectfully calls upon all members of Congress to join hands with those who recognize that present conditions demand a drastic curtailment of Governmental expenditures in every possible way, to the end that public confidence in the high credit of Government may remain unimpaired.

The prime requirement of sound Governmental finance is a balanced budget. We believe, therefore, that effective measures to bring this about through devoted cooperation for the public good, constitutes the first and foremost duty of the administrative and legislative branches of our Government.

Balancing the Federal budget under existing circumstances clearly demands two lines of action —first, a reduction of expenditures; and second, an increase in income. This means unequivocally that the cost of Government must be cut down on the one hand; and, on the other, that effective and equitable tax measures must be devised to assure adequate revenues for all proper expenditures.

There can be little hope for private business stability unless the Federal Government is kept upon an operating basis that will sustain its efficiency and maintain its credit. The deliberations of Congress should make clear to our people that the Government cannot continue to live beyond its income without disaster, and Congress should act fearlessly in the light of this public understanding.

Federal funds come only from the pockets of the people—through either taxes or loans. There must be a sound balance in the use of these two methods. If fresh loans are too numerous or extensive, pre-existing security values are impaired, injury done to Government credit and burdensome charges created. If taxes are too high, and particularly if not equitably spread, business is crippled and the capacity to pay weakened.

To avoid these disastrous results, policies of rigid economy in Government are of prime importance. The people are demanding in no uncertain terms that every last dollar of avoidable Governmental expense be done away with and that every dollar of unavoidable expenditure be made to bring a full return of economic and efficient public service. This applies not only to the national Government but to every state, county, city and other taxing jurisdiction. The influence seeps down, not up, and local governments look to the Federal Government for leadership.

The American Bankers Association respectfully urges that every effort and every faculty of our national legislature be devoted to this purpose until its aim is accomplished.

Two Plans for Bank Stability

By J. STEWART BAKER

Cooperation Through Regional Clearinghouses and Adequate Protection Against Forced Liquidation.

THE happenings of the last year, and the problems which face banks now, demonstrate anew the inter-dependence of banking institutions and their community of interest. A bank in accepting deposits assumes a responsibility which far transcends any individual transactions with its depositors. It has a responsibility toward other banks, for loss of confidence at any one point may quickly spread and become epidemic and seriously affect others. Banks have a common interest in the communities which they serve and in individual and collective business from which they derive their profits. Is there any business or profession which stands to benefit more through cooperation?

In Union

BUT it seems to me that cooperation between banks is a duty and that the best interests of the stockholders, of the depositors and of the public will be served by the closest kind of association. In our present day economics, all industry, all commerce, all employment, all living exists against a background of banking and in almost uninterrupted contact with financial institutions. I think it cannot be gainsaid that general prosperity is inconceivable apart from a well administered banking system or that, when such prosperity is interrupted, as at present, the bankers should play a leading part in its restoration. Inasmuch as the problems of today are largely economic, it seems only natural that the public has turned for leadership to that business which is most extensively and intensively concerned with economics—the business of banking.

Leadership must be developed from within, not imposed from without. This brings a great responsibility to our doors and is a sobering thought. If we accept leadership, we must be prepared to accept responsibilities. Our own conditions and methods must be as sound and efficient as we can make them. Is it not obvious that there are now many in the banking business who do not belong there, who are not truly bankers in ideals, temperament and training, perhaps, not even in resources. This thought differentiates the field of business from that of the professions. Business is supposed to be regulated largely by the law of supply and demand, while the professions assert codes of ethics and seek internal means for maintaining standards. I regard banking as entitled to a professional viewpoint and feel that methods of self-correction within our ranks may well be considered. I submit that groups of banks should exercise control over members of the group—ethically and technically—not as a means of oppression, but for self-protection and for the maintenance of high standards.

One Excellent Example

WITHIN the last few months we have seen a great corporation organized with funds of approximately $500,000,000, supplied by the banks of the country, to assist individual banks that may be in need of help. In this state the banks have been divided into groups which through committees pass on the applications for loans from this corporation. If approved, the member banks of the group automatically guarantee such loans. The willingness of the banks of the state to join in such an undertaking shows that they realize how much their own welfare is wrapped up in that of their neighbors, and that they can best meet the dangers and problems that confront them by united effort.

If there is one lesson that the present situation teaches the bankers—and they should never forget it—it is that in cooperation there is strength. Self-interest demands cooperation.

The New York Clearing House Association was founded seventy-eight years ago and has had an honorable and useful career. It has a constitution and by-laws which govern

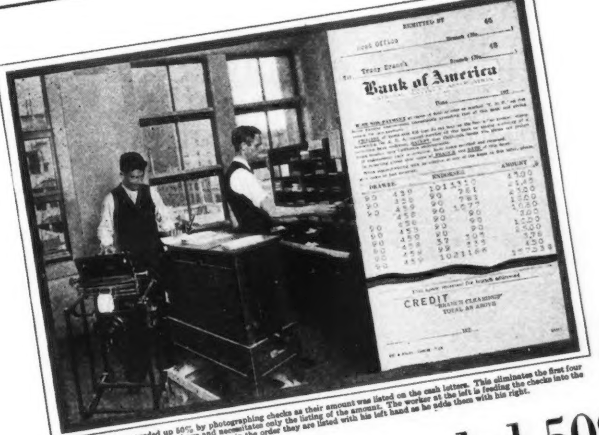
its activities, and its membership consists of twenty-two banks and trust companies. It functions through its various committees, made up of representatives of its members, elected annually. Cooperation is its watchword. Its mechanical operations, though valuable, seem to me to be its least important contribution. When problems have to be faced and when concerted action is necessary, the instrumentality already exists through which the member banks can effectively function. It has acted often and smoothly, especially during the past year, for the benefit of its members and the general banking situation in New York City. There have, of course, been honest differences of opinion, but individual opinions have given way before the desire for common action in some constructive and helpful move.

Idea Should Spread

I WOULD recommend the establishment of regional groups or regional clearinghouse associations which would cover each state. If the clearing of checks can be expedited through these groups, there is value in constituting them as clearinghouse associa-

(*Continued on page 539*)

A page from *The Bankers Service Bulletin* for November, 1931



Transit work was speeded up 50% by photographing checks as their amount was listed on the cash letters. This eliminates the first four listings as shown on the form above and necessitates only the listing of the amount. The worker at the left is feeding the checks into the machine that photographs them in the order they are listed with his left hand as he adds them with his right.

Transit Work Speeded 50%

By Photographing Checks

An increased element of safety is thus added, and filing procedure is simplified. The machine can be operated by the same clerk who handles the adding machine, and complete information be furnished.

By L. ALLEN

Assistant Vice President, Bank of America, San Francisco

MUCH of the routine, particular- ly that of listing checks on cash ... speeded up to such ... said

ords of all checks going through the transit department.

Each of the units in the transit de- partment is now equipped with a ... machine which auto- ... all checks as

the A. B. A. numbers of the drawee banks and the code numbers for the endorser, he now simply lists the amounts. On a very conservative estimate, it is now possible to com- plete the listing in less than half the time formerly required.

... ture is that the in- ...

simplified ... transit department, that ... is now required to file fool-proof rec- ... requ...

THE BANKERS SERVICE BULLETIN NOVEMBER 1931

No capital investment required to cut transit costs this way

Movie film record replaces four of the five listings formerly required

THE BANK OF AMERICA, in San Francisco, is one of hundreds of ably managed banks which find Recordak indispensable in their transit departments.

Without disturbing routine and without other additional equipment, this bank has increased transit department efficiency by at least 50%.

Four of the five previous listings were eliminated from cash letters—now the operators merely list check amounts on an adding machine with one hand, and simultaneously photograph the checks with the other.

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The Standard Is Gold

By FRED I. KENT

Foreign Trade Without Gold Is Barter. The United States Keeps to the Standard.

A DESIRE for gold undoubtedly exists in the minds of more individuals in the world, civilized and uncivilized, than for any other one thing. There is something about gold, its color, sheen, feel, and physical properties that seem to make it attractive alike to the savage and the savant. On this account early in the history of mankind following the first discoveries of gold it was turned into ornaments and later into coins.

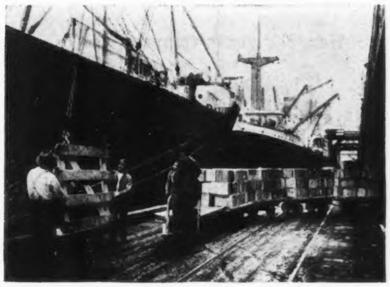
When man found it necessary in carrying on trade to have a common measure for the purpose of determining the relative values of commodities gold proved to be the most effective standard. Many things have been tried out for this purpose, including fiat, but all have had to be abandoned except gold.

Silver Based on Gold

TO be sure silver also having a great attraction for men has been successfully utilized in certain countries as a commodity measure and is so used today, but all of the international operations which are carried on by these silver countries represent conversions of the commodity prices of such countries as expressed in silver into gold through the relative value of silver to gold.

The intricacies involved in the exchange of the tremendous varieties of commodities in their raw and processed states which arise from the differences in the cost of their production based upon the elements of scarcity, labor and time on one side, and demand on the other, are such that without a common measure of value it is not conceivable that trade could be carried on with the speed necessary to sustain life as it exists in our world of today with its ever growing density in population.

The importance of having such a measure, the fact that it enters into our every day life, not once but many times, that it must be considered in determining where we shall live, how we shall live, and many important activites that we might wish to carry out, is probably at the bottom of the over-emphasis which is being given to gold in connection with the present depression.



Apples in Seattle for the Orient

Barter

IT is quite impossible to carry on international trade in this century on a basis of barter and if there were no common standard in which all commodities could be measured, starvation would be rampant in the world. When Great Britain took action to preserve the gold in the Bank of England until the crisis had passed and as a result sterling exchange dropped there was an entire stoppage of international trade in every country where prices for export and import had been figured in pound sterling on a gold basis and this continued until a new method of arriving at gold values through the French franc, the American dollar, or otherwise, was found.

If all the world went off the gold standard at one time foreign trade would be impossible except on the basis of barter which could not carry sufficient movement to make life livable in many parts of the world.

The measure of the gold standard, therefore, is required for the protection of our civilization and must be continued until something else as effective has not only been provided but can be put into force at the same time that gold might be abandoned as a common measure. At present gold is serving its purpose perfectly as a commodity price measure for the exchange of goods between nations.

Gold in trade in addition to serving as a common measure of commodity prices has also been utilized to make up balances between exports and imports that are now for and now against countries engaging in trade. If a country's foreign trade properly balances, together with the services which it extends and receives, including loan operations on a sound basis, a very small surplus gold supply not needed in its banking system should suffice to meet temporary trade balances as the gold should flow in and out as time went on without depletion of needed reserves.

It is conceivable that a time may come when utilization of gold in this manner, even though it may continue to be the measure for commodity prices, will be eliminated in important part and this will result in making the gold in the world reach much farther for reserves.

At present, however, the fact that gold does act as reserve against credits and therefore that shipments of gold from one country to another change the credit base in both countries and has a curtailing influence on excessive imports as against exports, or vice versa, has important values. It is very likely that such values may continue with such force that gold shipments to meet balances may prove to be as desirable in the future as they are today.

Effect Not Cause

WE hear much talk about the lack of balance in the distribution of the world's gold supply and are frequently told that it is because of this fact that the depression seems so difficult. Actually such distribution has absolutely nothing to do with the depression. It does, however, measure what has occurred in the past that has resulted in gold seeking its present resting place.

One would think from what we often hear that every country should have such a supply of gold that it could go

on importing without exporting the equivalent and be able to pay balances in gold indefinitely. Such an idea is so absurd when so simply stated that it is hard to conceive of any one believing such a situation as being either possible or desirable.

In 1913 we never used to hear about the mal-distribution of gold and yet today because France and the United States have such large quantities of gold we jump at the conclusion that there is a tremendous mal-distribution. Actually there has been an increase in gold held by central banks in 1913 from $4,900,000,000 to a total in 1931 of $11,000,000,000. It is true that during this period the United States and France have increased the supplies held by their national banks about three and one-half times, but during the same period the central banks in all other countries of importance, with the exception of Austria, Brazil, and Russia and Canada where there was a slight reduction, increased their gold holdings very materially and in the case of many countries in far greater percentage than was true in the United States and France.

The Swiss Bank, for instance, had ten times as much gold in 1931 as in 1913. Countries where the increase was in greater percentage than in the United States and France are Great Britain, Holland, Norway, Spain, Belgium, Japan and Java, whereas the banks in Germany, Australia, India, Italy, Norway, Denmark, Sweden, Yugo-Slavia, Argentina, Uruguay and Chile show important increases.

It goes without saying, however, that no country can borrow and import in excess of its exports constantly year in and year out without reaching the breaking point, and that if it undertakes such an economic progression in trade that such gold as it has will naturally disappear and that it will ultimately find itself unable to continue its unbalanced trade.

Human to Err

AFTER all is said and done we must come to the ultimate conclusion that it is the unwise acts of men, in governmental extravagence, in excessive taxation, in raising trade embargoes, in over-borrowing, and in the exercise of bad and unfortunate politics that has caused the great depth and length of the depression through which we are passing. Gold has no part in it, although it does measure with great vividness the results of the mistakes of mankind. If, however, men wish to see chaos in the world for an indefinite period during which life itself will be a veritable burden, all they need to do is to abandon the gold standard. It is not conceivable that this will be done in the United States of America nor throughout the world.

Those who advocate it must do so without analysis or knowledge of what is involved for otherwise they could take no such stand. In time of stress the multitude listens favorably to all promises of relief that are suggested without regard to the harm that they might do. The result is that legislation undertaken during times of depression is apt to leave a serious scar that may be evident in the life of a nation for generations.

If We Look Back

ONE great help toward the approach to better times would be the exercise of fairness; fairness to those in our own country engaged in other pursuits, and fairness to those in other countries. We are not justified in criticizing the acts of those in other countries or others outside of ourselves on the basis of hindsight. It is easy to look back to say 1928 and see how, if every one had acted intelligently at that time based upon what we know today, we need not have had the crash of 1929 nor the trying year of 1931. We have no right, however, to apply this knowledge based on hindsight as a basis of criticism of every one but ourselves and of every country but our own. Even now looking back have we the intelligence as individuals, and as a people, to do those things which are clearly and positively necessary based upon hindsight that will help to prevent the recurrence of a 1931? Even this seems doubtful.

One of the great forces that has brought about unemployment has been over-taxation. Are we going to be able to correct this in our Federal Government, in our states, and in our several localities? In individual instances possibly "yes," for a time but after the pressure is withdrawn will not taxation again begin to pick up until once more we approach a condition where unemployment must again go around the world?

Looking back we can see that many men in foreign countries advanced funds to those in the United States to help in the upbuilding of this country. We know that losses occurred to some of those making such loans, but that in the main the percentage of safety was high. We know that in this country we have been making loans to many other nations and to their nationals. Such funds in large part have been helpful in the upbuilding of those countries. There has been much waste but there has been much waste in the United States. We know that when money is loaned to a foreign country that the debt charge must be collected in that country and then that it must be remitted to our nationals in dollars before they can be put in funds.

Not Integrity Alone

WE know that even if such collections can be made in a foreign country in the foreign money that its remittance constitutes a new problem that is often far removed from any question of integrity of the borrower. We know that when commodity prices are high the turnover of industry brings more units of the money of a country and that government receives more units of such money from taxation. We know that when commodity prices fall the units of money received by industry and government likewise fall. We know that it is easier for a country or its nationals to find the foreign exchange necessary to meet a debt charge on a loan received from a foreign country when commodity prices are high than when commodity prices are low because more units in the foreign money are received for exports than when prices are low. We know that Argentina depends upon wheat and wool for its foreign exchange, and that wheat and wool are abnormally low in price. We know that Chile depends upon copper and nitrates for its foreign exchange and that copper and nitrates are low in price. We know that Peru depends upon cotton, sugar, copper and oil for its foreign exchange and that such commodities are low in price. We know that Brazil depends upon coffee for its foreign exchange and that coffee is low in price. We know that Colombia depends upon coffee and oil for its foreign exchange and that those commodities are low in price,

(Continued on page 536)

What's a New Trust Worth?

BY W. HERRICK BROWN

Study of Insurance Principles Reveals Basis For Appraising Uncertain Factors.

VALUATION of trust appointments expected to mature at some future time appears to involve so much uncertainty that it may seem futile to apply in a practical manner a method of valuation that might be accepted. Yet some measure of value is essential if we are to justify our trust development effort and determine what we can afford to pay to secure trust appointments, and I believe that we have now developed a method of valuation which is sufficiently sound to warrant confidence.

A Specific Case

TO develop this theory, assume that the trust representative secures our appointment as executor and trustee under the will of John Doe. Doe's estate now approximates $150,000 and he has set up a trust of $100,000 under his will. He is 50 years old. What is the value of this appointment to our bank?

The uncertain and unknown factors are—

1. The probable date of death of John Doe.
2. The size of his estate at death.
3. The possibility of revocation of the appointment.

In respect to the date of John Doe's death—facts are available in many banks that will eventually give a fairly accurate figure. The mortality tables used by life insurance companies give the expectancy of life at each age, but this is the expectancy of a group of 1000 men, not a figure upon which one may forecast the death of an individual.

No single individual has an expectancy of life. At age 50, for example, the number of years Doe will live is entirely problematical. If we had 1000 cases at age 50, we might use the insurance table. However, an average expectation of maturity of wills may be assumed, and as the years go by checked by actual experience of banks that have acted in a trust capacity over a long period of years. We estimate from a not very thorough examination, but from a consensus of opinion of trust officers that an estate will come to us in about 20 years, and that a trust under the will operates on the average for 15 years.

A living trust if created at the time of drawing the will may very likely run for 20 years. It will probably also run for the same period after death as a trust under the will. It is a question, however, if living trusts are not commonly created some years after the execution of the will, when the trustor desires relief from care and places the management of his property in the hands of an experienced trustee. It is more than fair to compute valuation on the basis that it will only run for a total period of 20 years before and after death.

The second factor—the size of the estate at death seems highly problematical, but in reality it is not so uncertain. When a man has been successful in accumulating property, and has reached the time of life when he seriously thinks through his affairs in an orderly and well considered plan for the future of his family—when he inventories his wealth and allocates it to his family as he desires it should be divided and sets up trusts for the conservation of his property, he has, by these acts, demonstrated that he is fundamentally sound in the management of his private, personal affairs, and is not likely to lose his property in ill-considered speculation. It is true that unforeseen contingencies may diminish his wealth—it is equally true that his wealth may increase. According to our means, most persons automatically increase their life insurance to build an estate for the support of their families. This in many cases is the most important and definite part of estates.

Selective Selling

OUR records of the next ten years will provide helpful figures. It is not unreasonable to expect that in respect to men under 45, who now have estates sufficiently large to interest active solicitation, that their property will be enhanced before death. Our efforts in trust development are selective. We try to secure appointments that are likely to be permanent and profitable.

In respect to the third—uncertainty —revocation, we must generalize, rather than attempt to be specific. Good-will is an ever widening circle. In order to obtain it, banks annually spend vast sums. The majority of those who appoint us as executor and trustee have reached the period of life when they are usually settled in their ideas, their friendships, their business, their banking connections and domicile. The good-will which now has influenced them to appoint us as executor and trustee, was created in earlier years, and fostered by friendly service. If we do anything during the remaining years of their life to destroy that good-will, it is most unfortunate; but their present decision to appoint us is made because they believe we can take their place as a desirable and efficient "incorporated father and friend of the family" as it were. They will be unlikely to change this appointment unless they lose faith in us, and we cannot admit that contingency in any hypothesis.

Not Always Total Loss

THERE are cases where appointments are revoked because the testator moves away. It is not necessarily a corollary that the revocation of this appointment is a total loss. Human nature is so constituted that one enjoys recommending to others his particular doctor, lawyer, dentist, bank or other connections. It is not only reasonable, but almost inevitable to assume that as long as our client is in daily contact with us, he is influencing friends and business acquaintances to make us their bank of deposit, to open a safe deposit box, or appoint us as executor and trustee, as he has done.

Competition of other corporate fiduciaries keeps us on our toes to insure that we retain those customers who have appointed us. It is an important duty of all trust representatives to maintain friendly contact with their customers. It is often possible to secure living trusts or agency accounts from those who now appoint us as executor and trustee under a will.

However, we concede that some allowance should be made for shrinkage in our estimate of the volume of business that will come to us. Figures on revocation also will soon become available from the common experience of banks assisting in the solution of this problem. A deduction

of 10 per cent from a conservative estimate of the value of every estate has been set as fair by several banks that have investigated their experience, and on this figure we may predicate our theory of valuation.

In the case cited for illustration, we assume that Mr. Doe's estate will come to us for administration in 20 years. The value of this estate is now estimated at $150,000. The amount goes on our books at a reduction of 10 per cent or $135,000. What is a fair interest basis for computing the present worth of this business? It must be a rate of discount agreed upon as reasonable in the particular locality in which the bank operates. In some sections 6 per cent is a fair basis. The state of Massachusetts says that a rate of 4 per cent is fair to determine the present value, for inheritance tax purposes, of estates to be distributed at a future date. We compromise with a rate of 5 per cent. Therefore our problem is simple. Given the fee we shall receive for acting as executor, we compute the present worth of this fee 21 years hence, discounted at 5 per cent. Tables are available giving us the present worth of $1 at all years—multiply this by the amount of the fee, and we have the present value in dollars of the executor's gross fee.

Present Gross Value

IN addition, this appointment provides a trust under the will of $100,000. The trust runs for 15 years. The value of these fees received during the management of this trust will be the present worth of a 15-year annuity starting in 20 years, discounted at 5 per cent. This is a more complicated factor, but an actuary can readily supply it. Also, there is a distribution fee on termination of the trust, and in some jurisdictions a divided fee on principal is taken, one-half at the beginning of the trust, and one-half at its termination. According to the schedule in practice here, we will receive a distribution fee of 1 per cent of principal 35 years hence. The present worth of the distribution fee will be figured in the same manner. The total of the present worth of these three fees gives us the present gross value of the specific piece of business of John Doe.

Opinions differ as to whether present worth should be figured on the gross fee or the expected profit after expenses for administration are deducted. It is contended that we will save each year a larger percentage of gross fees, if we are steadily improving the efficiency of our trust department. Some banks figure expense of management at 75 per cent, others at 50 per cent. There is a wide variation in overhead charges and organization of trust facilities among trust companies that would affect this percentage. It would seem that competition is so keen we will be spending an increasing amount to perfect our trust service, and the ratio of our profits will not be likely to increase.

Distinction Without Difference

THE argument is also offered that in other lines of commercial activity, costs of securing business are properly a deduction from gross and should be figured on gross. In a sense this argument is academic. If we figure our compensation on gross, our schedule of compensation will be a smaller per cent. If we figure compensation on the basis of expected net profits it will be a larger ratio. Because of the wide variation as between banks in respect to administration expense, it is expedient for the presentation of this theory to figure present value on the basis of gross fee. Nevertheless, the real present value of future business is the value of the expected net profits.

Present worth of other types of trust business may be figured in the same manner. Living trusts and agency accounts are, of course, the most desirable types of business to secure, and the present worth of these appointments is the largest figure in our system of computation. We would like to have the present worth of the fees on living trusts and agencies equal the total annual expense of our Trust Development Department. It may require a long period to educate the public, but it will eventually become a reasonable possibility that our expense will be covered each year by living trusts and agencies.

How Uncle Sam Pays the Piper

(*Continued from page* 504)

Department, and in his statement before the House Ways and Means Committee early in January, Secretary Mellon considered it at some length and opposed it. He rejected a general sales tax on the ground that it bore no relation to ability to pay, is regressive in its effect, and the pyramiding effect of the tax on successive sales. He also opposed, but much less vehemently, the limited manufacturer's or producer's sales tax as administered with some success in Canada where a tax of 4 per cent is imposed upon the manufacturer's sale price or the import value of all goods not exempt which are produced or manufactured in Canada. He thought that the success of the tax would depend upon wide administrative discretion which was impracticable in the United States with its 200,000 manufacturing establishments and the well known disposition of Congress to dot the i's and cross the t's of all tax legislation, though he referred to this as a national rather than a congressional tendency.

In testimony before the House Ways and Means Committee two Treasury experts later gave the impression that such a tax was practicable. The Treasury also opposed the general tendency in Congress to "make the rich pay it" by increasing the tax unduly on the higher bracketed incomes on the simple ground that such taxes would not produce the necessary income. Among other means of taxation considered was a Federal tax on the consumption of gasoline but this was rejected as an invasion of a field the several states have come to take as their own. A sort of luxury tax on furs, perfumes, cosmetics and the like was proposed but rejected because of the difficulty of collecting the impost. A tax of 25 per cent on the gross sales of bootleggers and speakeasies has been seriously suggested in the hearings before the Ways and Means Committee. Any or all of these measures may yet form a part of the tax system. The policy of the Democratic majority in the House is yet to be formulated. In taxes, in this year of emergency, all things are possible.

Tax Base Too Narrow

IN both houses of Congress there is considerable representation of that school of finance which proposes to pay everything by the issue of more bonds but it is a very noticeable fact that this school has rapidly diminished in the past few weeks and now has little influence. The plain fact is that no more bonds are to be issued than absolute necessity requires.

Several other principles may be laid down as now generally accepted. One is, as contended by Treasury officials, that the nation's tax system rests upon too narrow a foundation and that its tax receipts are too much subject to variations in business conditions. This is particularly true of income taxes and especially taxes on larger incomes.

What Your Association Is Doing

AT a meeting held in Washington toward the end of January, the interim committee of the American Bankers Association took action with reference to the Glass Bill (S. 3215) and several other matters of importance to banking and the country's economic welfare.

It was decided to oppose hasty and precipitate action on the Glass Bill and to insist that a measure of such vital concern to the industrial and financial health of the nation should be discussed openly and fully before any attempt was made to speed action by Congress. With this purpose in view, the committee took steps to apprise members of the Association concerning the radical nature of the bill as it was introduced on Jan. 21, emphasizing particularly the fact that it attempted to combine in one measure certain emergency legislation with proposals for fundamental changes in banking practice. The committee felt that bankers throughout the country should be given an opportunity to study the bill and to express themselves as to just what effect its provisions would have upon present banking problems.

A PRELIMINARY examination of the bill led the committee to these conclusions: that the measure would enforce a drastic contraction of credit, by compelling member banks to liquidate their loans on stocks and bonds; by obliging the Government of the United States to borrow money in the open market instead of thru member banks; by making necessary a contraction in the issue of Federal Reserve notes; by requiring increases in reserves against time and thrift deposits; and by prohibiting member banks and corporations engaged in interstate commerce from associating with, or clearing for, or depositing with bankers, brokers and others engaged primarily in the business of buying or selling securities.

The committee has reason to feel that there is no possibility of the Glass Bill being approved in its original form by Congress.

Home Loan Bank

THE committee further decided to take the position that action on the proposed Federal Home Loan Bank Bill (S. 2959; H.R. 7620) be deferred until it should be ascertained how successful the Reconstruction Finance Corporation would be in dealing with the problems involving accumulated mortgages. The reason for this action was that the Reconstruction Finance Corporation is in a position to give the needed relief; with the exception, of course, of aid in stimulating the building of new homes which it would not seem advisable to encourage at this time. Members of the committee felt that the chief need of the moment was to render assistance to existing home ownership. Moreover, it was held to be unwise public policy for the Federal Government to create additional banking corporations of a permanent character.

Postal Savings

AT a meeting earlier in the month the committee, on behalf of the Association, took a positive stand in opposition to the bill providing for an increase in the postal savings deposit limit from $2,500 to $5,000. It was maintained that the proposed increase would be a violation of the principle on which the Postal Savings System was originally established, namely, to provide savings facilities for persons of small means, chiefly immigrants. Members of the committee believed that the bill would put post offices in direct competition with banks to the detriment of the latter, and without benefiting in any way the credit situation in the United States. Representatives of our Association were heard in opposition to this bill on Jan. 25 and 26 before a sub-committee of the House Committee on post offices and post roads, which committee, it is understood, has since disapproved of the bill.

The Greenbrier Hotel, White Sulphur Springs, West Virginia, where the Spring Meeting will be held April 25, 26 and 27. View of the hotel and golf course

James E. Clark

JAMES E. CLARK, who has been Editor of the AMERICAN BANKERS ASSOCIATION JOURNAL for the past ten years, resigned Jan. 15, to enter other fields.

(Cont'd on p. 542)

Recently

(Continued from page IX)

life of short term credits to Germany for a year, is signed at Reichsbank; old agreement expires February 29. Governor Roosevelt, in letter to Democratic Committee of North Dakota, permits use of name in primaries of that state, thus officially announcing his candidacy for the Presidential nomination. House votes $500,000,000 appropriation for new credit corporation. Bureau of Labor Statistics reports decline in living costs in 1931 was 10 per cent.

24 Paul Warburg, internationally known banker and one of founders of Reserve System, dies at 63. First step to provide Finance Corporation with funds is taken by Secretary of Treasury with announcement of plans to sell $350,000,000 Treasury six-month and one-year certificates. Business slump reduced income and miscellaneous taxes by $1,018,911,438 in 1931, Treasury Department reveals; 95 per cent of decline in income taxes.

25 Premier Laval reported to favor "temporary plan for moratorium" on German debts, to be followed by "effort to solve problem without American aid." "Soviet Republic" fails in Spain as revolt is crushed. (Shanghai) Cantonese Central Chinese Government crumbles with resignations of Sun Fo, president, and Eugene Chen, Foreign Minister; return to power of General Chiang Kai-shek probable. Bank of England announces it will repay on maturity, February 1, £30,000,000 joint credit advanced it by Federal Reserve Bank and Bank of France; completes liquidation of £50,000,000 credit originally maturing October 31, 1931. Total mutual savings deposits of country stood at $10,030,014,385 at end of 1931, a record high, according to National Association of Mutual Savings Banks.

26 (New York) Newton D. Baker disavows League of Nations as 1932 campaign issue; action regarded as tantamount to announcement of his candidacy for Presidency. New York State arranges loan of $25,000,000 with local bankers; first short term borrowing by State since 1915. United States Steel Corporation cuts quarterly dividend on common stock to 50 cents after heaviest deficit in its history.

27 (Washington) Glass Banking measure sent back to subcommittee for revision. Building Trades Employers' Association of New York City announces plans for 25 per cent wage reduction at expiry of present agreement, May 1. Shanghai awaits Japanese attack; foreign area barricaded. About $150,000,000 has been lent to date by National Credit Corporation, according to George M. Reynolds, chairman. Pennsylvania Railroad adheres to $2 annual dividend rate, but officials point out continuance must depend on business improvement.

28 Japanese invade Shanghai; many slain in bombing, machine gun attack; United States warns Tokio to respect its rights. Democrats and Republicans agree not to make new taxation retroactive, i.e., affecting 1931 incomes. Senator Hiram Johnson introduces bill to have Government supervise foreign loans.

29 Chinese in Shanghai repulse Japanese in Chapei district of native city; foreign colony under fire; Britain joins United States in pressing neutrality.

30 Japanese invade Shanghai foreign area; United States and Britain protest violation of neutrality; Asiatic fleet of United States prepares to act to protect American lives.

31 United States rushes 1,560 troops, 9 more ships, to Shanghai; foreign settlement there on war basis. (Chicago) Railroad wage dispute ends; workers accept 10 per cent cut; estimated saving to carriers $210,000,000 on present employment basis. (Geneva) Delegates from 64 countries are gathered here for opening of Arms Conference.

This Month's Contributors

ALEXANDER DANA NOYES has been Financial Editor of the New York *Times* since 1920. His "Evening Post's Free Coinage Catechism" attained a circulation of 2,000,000.

MORRIS EDWARDS is associated with the Chamber of Commerce of the United States in their finance department, and comes from Indiana.

HENRY HART is executive vice-president of the First Detroit Company of Detroit. His work as chairman of the Municipal Securities Committee of the Investment Bankers Association has given him a broad grasp of the financial problems confronting our larger cities.

W. A. MCDONNELL is active vice-president of the Bankers Trust Company of Little Rock and has a legal training. He is also Chairman of the Arkansas Bankers Association important committee on Legislation and Taxation.

FRED I. KENT is director of the Bankers Trust Company, New York, and Chairman of the American Bankers Association's Commerce and Marine Commission. Mr. Kent is a national authority on foreign trade and exchange problems.

J. STEWART BAKER is chairman of the board of directors of the Bank of Manhattan Trust Company and is also president of the New York State Bankers Association.

GEORGE E. ANDERSON is well known to Journal readers as a contributor on financial and economic subjects. Mr. Anderson, after spending twenty years in the American Consular Service, is now a consultant upon foreign trade problems.

J. HARVIE WILKINSON is manager of the Investment Department of the State Planters Bank and Trust Company of Richmond. His reputation as a writer and speaker, together with his able grasp of bond problems, is widespread throughout the South.

WILLIAM WALLACE ATTERBURY is president of the Pennsylvania System. The securities of his railroad are more widely held than are those of any other transportation system and it has recently been estimated that the wage adjustment just affected means $1.50 per annum on each of its outstanding shares.

EDWIN BIRD WILSON is president of the advertising agency which bears his name. Mr. Wilson has long specialized in financial advertising and acts as counsel to several important banking institutions.

THOMAS B. PATON needs no introduction to the readers of the Journal. As General Counsel of the American Bankers Association, he has been efficiently serving the banks of the country for many years.

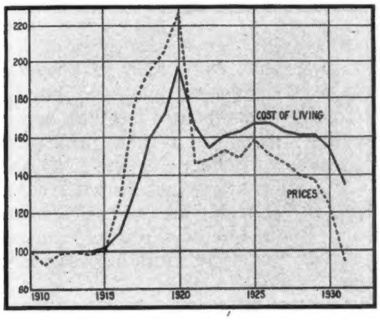
LEONARD P. AYRES is vice-president of the Cleveland Trust Company. His searching analyses of the causes, complications and probable duration of the present depression have added materially to his previous worldwide standing as an economist.

W. HERRICK BROWN is assistant vice-president of the Old Colony Trust Company of Boston.

The Condition of Business

Decrease in Cost of Living Increases Purchasing Power of the Farmer and Wage Earner.

SINCE the first of the year a moderate quickening of activity is noted in the reports on retail trade and by the sensitive weekly indexes of industrial production that are corrected for the seasonal trend. Although the improvement is not impressive in size, there is reason for confidence in the fact that the business world is now taking a clearer and more realistic view of its problems than for years back. Clearing away the debris of the year 1931, in



The U. S. Bureau of Labor Index of Wholesale Commodity Prices (1913=100) *and National Industrial Conference Board Index of Cost of Living* (1914=100)

the form of operating losses, inventory losses, commercial failures, bank closings, bond and stock depreciation, unemployment, etc., has brought business face to face with actual conditions.

Numerous Remedial Measures

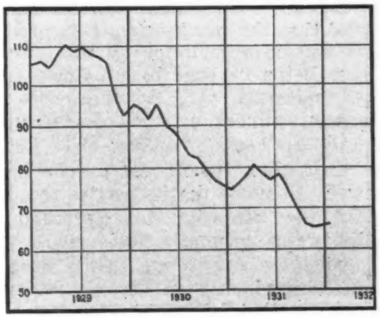
HAVING at last discovered what is wrong, the country is now performing an operation upon itself. Numerous steps to remedy the trouble and to restore an equilibrium on the lower level of prices now prevailing include, first, the efforts of the Government to free frozen credits and to care for the maturing obligations of the railroads, also to economize in expenditures and to balance budgets; secondly, the recognition on the part of manufacturers and merchants that production must be balanced with current demand, that operating costs must be cut and purchasers must be attracted by the appeal of exceptional values; and thirdly, the cooperative attitude of labor as expressed in its willingness to accept reductions in wage scales in the interest of wider and more steady employment.

With the strengthening of the traditional American confidence that eventual recovery from the depression is only a matter of time has come the belief, rather widely held, that the United States, because of its business organization, financial strength and natural resources may be expected to take the lead in the restoration of better conditions throughout the world. Even though such an assumption is founded on substantial grounds, it is by no means a certainty, for the reason that in some of the other countries where the economic life is more simple, notably the South American countries and Australia, the economic readjustments can be completed with relatively less delay. Considering the marked progress that these countries have already made toward balancing their international payments, there is a probability that some of the group that have been forced to suspend service on their foreign loans might be able to resume in 1933 or 1934.

The depression has reached a stage where conditions are so bad it is hard to conceive of their getting much worse, and when it is realized that all economic troubles can be cured or will spend themselves in the course of time. In a considerable number of home industries, the long downward trend in business activity has carried the rate of production so low that some expansion is being found necessary to meet sheer replacement demand. There has been a moderate pickup in steel, an expansion in automobile schedules following the favorable response to the January exhibitions and tire sales continue active. Shoes are reported in good demand and improved buying is noted in silk and wool, also furniture, while a remarkable gain in sales of mechanical refrigerators has been achieved.

Price Decline Is Checked

DECLINING prices have been an influence retarding the making of contracts in commodities for more than two years, but an analysis of the price movement by individual items will show that the decline in raw materials has practically ceased. Of course this will not be apparent from a general table of wholesale prices, since there is an appreciable lag between prices of basic materials and prices of the great variety of semi-finished and finished articles. Cost of manufacture has been cut to a degree not believed possible in 1929. Lower material costs, reduced wages and operating economies have combined to enable goods to be offered much cheaper to the trade and eventually to the consumers.



The Annalist Index of General Business Activity, 1929-1932. *(In percentage of calculated normal)*

A table of raw material prices today gives an interesting mixture of changes. The plus signs slightly outnumber the minus signs if compared with a month previous, and numerous items show no change whatever. Following is a representative list of important commodities that are actively traded in, the quotations being New York spot prices in most cases:

Increases

	Present Price	Month Previous
Oats, No. 2 white, bu.	$0.37⅜	$0.37⅛
Rye, No. 2, per bu.	.60⅞	.59⅜
Flour, Minneapolis, bbl.	4.40	4.45
Coffee, Rio, per lb.	.07⅛	.07
Beef, per 200-lb. bbl.	16.00	15.00
Cotton, middling, lb.	.0670	.0655
Silk, crack, per lb.	1.87½	1.80
Print cloth, per yard	.03¾	.03⅜
Iron, per ton	15.64	15.51
Tin, Straits, per lb.	.2180	.2175

Decreases

Wheat, No. 2 red, bu.	.74¼	.74⅜
Corn, No. 2 yellow, bu.	.52⅛	.52⅞
Sugar, raw, per lb.	.0308	.0315
Pork, per 200-lb. bbl.	17.50	17.75
Steel billets, Pitts., ton	28.00	29.00
Silver, per ounce	.29¼	.30¼
Rubber, per lb.	.04¼	.0482

Unchanged

	Present Price	Month Previous
Wool tops, Boston, lb.	.7350	.7350
Lead, per pound	.0375	.0375
Hides, native steers, lb.	.07½	.07½
Gasoline, per gallon	.103	.103
Crude oil, per bbl.	.71	.71

In the equation of business profits, the two principal factors are volume and prices. There is always a close relation between the two and their respective movements as indicated on the two accompanying charts are worthy of note.

Firmer Commodities Encouraging

SO long as prices were declining, due to the overproduction of a considerable number of basic raw materials, (relative to other kinds of goods), there was a tendency to hold off making commitments. Producers found that the market for their products had been curtailed by the lower prices being realized by producers of raw materials, viz., farmers, cotton planters, miners of the non-ferrous metals, growers of rubber, etc. Low prices to them meant less purchasing power. Some of the industries recognized the necessity for decreasing output and promptly took steps to adjust their operations, while other industries which were slow to become aware of their danger continued to produce stocks that in the course of time became burdensome.

Moreover, manufacturers who found the prices of their raw materials steadily declining were faced with inventory losses, and there is no doubt that a large portion of the decrease in earnings in 1930 and 1931 was caused by having to write down inventories at the end of the year against the profits realized from operations. On a declining market, therefore, the manufacturers as a class try to buy only their immediate requirements, and the same applies to the independent retailers and to the large chain store, department store and mail order organizations.

There is of course no assurance that the backing and filling of raw material prices during the past month or more indicates that a stability is being established around present levels, but a market such as has developed should be a powerful influence toward encouraging large consumers to contract for their reasonable requirements for some time ahead. That many concerns are doing just this is evident from the size of the item "Contingent liability for goods not yet delivered" appearing on their year-end statements.

At the end of 1931, the Bureau of Labor Index of wholesale commodity prices had declined to approximately 95 per cent of the pre-war level. This index was formerly expressed on the basis of the 1913 average taken as 100, but a few years ago was revised on a 1926 base as 100, so it is necessary to convert the latest figure (66.3) to get back to the period before the World War caused prices to more than double.

A widely accepted index to the cost of living is that prepared by the National Industrial Conference Board, made up of a selected but extensive list of items comprising food, clothing, shelter, fuels and lighting and sundries.

It is sometimes assumed incorrectly that the "purchasing power of a dollar" is the same as cost of living, but the former is simply the reciprocal of the price index. That is to say, if the price index rises from 100 to 150, the purchasing power of the dollar declines to 66⅔ cents, and the dollar can buy only two-thirds as much in commodities as before prices went up.

The income of individuals, however, is not spent in purchasing commodities at wholesale, but at retail, and a substantial portion of it goes for rents (which fluctuate only slowly), for gas and electricity, carfare, insurance, education and amusement, doctors' and dentists' bills, etc., all of which are more or less fixed but have been taken into account in the compilation of the index mentioned. This index, which was formerly on the basis of the 1914 average as 100, has also been revised to a 1923 base, but if the latest available figure (November) be converted it represents about 135 per cent of the 1914 level.

In other words, commodity prices at wholesale have fallen to 5 per cent of pre-war, but the cost of living is still about 35 per cent higher than pre-war. Regardless of the trend in wholesale prices, it is likely that the cost of living will have some further decline as the benefit of cheaper manufactured goods is passed along to consumers and as leases expire and are renewed on the basis of lower rents.

Every month that passes makes it possible for the person whose income has not been reduced during the depression to purchase an increasing physical quantity of goods, which of course means that greater production and greater employment will be necessary. For the large body of people whose income either from wages or salaries, or from investments, has suffered some reduction, the lower cost of living will aid them in being able to restore their consumption to, or at least in the direction of, its former volume. Cost of living, like other fundamental economic influences, changes slowly but none the less surely.

Some Gains in 1931

IT is encouraging and possibly surprising to find among the scores of annual reports that are being issued covering the 1931 business of representative corporations that a few were able to make a better showing than in the previous year. By far the greater majority had a decline in profits, the aggregate of which (after deducting the deficits reported by more than one-third of the industrial reports published to date) was approximately 55 per cent below those of 1930 and 75 per cent below the peak year 1929.

None of the basic industries as a whole showed a gain, but there were a number of individual companies scattered through a variety of different lines that were able to progress despite the adverse tide. A partial list of these companies is given below, together with their net profits in thousands of dollars for the 1930 and 1931 fiscal years, which in some cases closed in the latter half of the calendar year. Seven out of the group turned a deficit for 1930 into a profit last year.

Corporation Net Profits 1930-1931
(In thousands of dollars)

Corporation	1930	1931
Alabama Dry Dock & Ship.	$1,462	$1,509
Brillo Mfg. Co.	183	279
Brown Shoe Co.	1,334	1,356
Copeland Products, Inc.	107	314
Devoe & Raynolds Co.	132	335
Fajardo Sugar Co. of P. R.	*223	*226
Firestone Tire & Rubber	1,541	6,029
Fitz Simons & Cornell	139	170
Glidden Co.	11	201
Hamilton Woolen Co.	200	341
Hollander (A), Son	309	569
Horn & Hardart Baking	1,462	1,509
Kelvinator Corp.	1,601	1,762
Manhattan Shirt Co.	D-297	102
Masonite Corp.	176	217
Mullins Mfg. Co.	D-332	100
National Battery Co.	481	489
National Standard Co.	587	622
Norwalk Tire & Rubber Co.	D-194	99
Noxzema Chemical Co.	84	165
Paramount Motors Corp.	D-281	29
Procter & Gamble Co.	22,451	22,651
Reynolds, R. J., Tobacco	34,257	36,397
Seiberling Rubber Co.	D-1,282	500
Servel, Inc. (a)	560	1,067
U. S. Radio & Television	6	365
Universal Cooler Corp.	47	103
Universal Leaf Tobacco Co.	964	1,228
Walker Mfg. Co.	17	130
Williams Oil-O-Matic Co.	D-321	16

D—Deficit. *Before certain charges.
(a) 10 months in 1930.

While it is the rare exception among

(*Continued on page* 547)

CONDENSED STATEMENT

FIRST NATIONAL BANK

IN ST. LOUIS

at Close of Business, December 31, 1931

RESOURCES

Loans and Discounts		$ 84,236,460.91
Advances against assets Franklin-American Trust Co.		22,634,428.30
Overdrafts		78,400.71
U. S. Bonds to secure Circulation		1,000,000.00
Other United States Securities		22,529,499.97
Other Bonds and Stocks		22,938,480.66
Stock in Federal Reserve Bank		513,000.00
Banking House, Improvements, Furniture and Fixtures		848,438.13
Safe Deposit Vaults		392,202.10
Other Real Estate Owned		653,555.47
Customers' Liability a/c Letters of Credit, Accept. etc.		4,808,764.80
Interest Earned, Uncollected		715,471.63
Cash and Sight Exchange		32,778,146.57
		$194,126,849.25

LIABILITIES

Capital		$ 12,100,000.00
Surplus and Profits		7,931,436.07
Special Reserve Fund		500,000.00
Unearned Discount		308,427.57
Circulation		1,000,000.00
Liability, a/c Letters of Credit, Accept., etc.		4,824,097.70
Taxes, Interest, etc.		177,523.25
Individual Deposits	$ 94,719,274.43	
Savings Deposits	31,008,805.09	
Bank Deposits	29,283,147.98	
Government Deposits	3,126,294.29	
City of St. Louis and other Public Funds	9,147,842.87	
Total Deposits		167,285,364.66
		$194,126,849.25

St. Louis' Largest Bank

BROADWAY—LOCUST—OLIVE

One of the Largest and Strongest Bank Directorates in the Country

Not One Depression, But Two

(*Continued from page* 499)

prices, but it practically stopped lending to Europe long before the craze of Wall Street speculation ended. During most of 1929, we dragged away, by our own fantastic bids for money, a good part even of Europe's own working capital.

Sequence of Cause and Result

WE did this, not at all because of doubt over the safety of our European investments—that doubt did not arise until we ourselves had pulled down the European economic structure. But these excessive drains on Europe's capital occurred at a time when it was perfectly well known that, in view of the abnormally distributed international indebtedness after the war, the only means of preserving the world's economic equilibrium was through export of American capital, large enough to balance the international account. They occurred also at the moment when the breakdown here was about to aggravate immensely all such withdrawals by America from Europe, through our own necessities.

This was the perfectly plain sequence of causes and results. It is something like the irony of economic history that when Europe, with the props pulled out in this reckless way from under its financial edifice, fell into panic of its own at the news of the Kreditanstalt failure, the repercussion on market prices and financial sentiment should have been more violent in America than in Europe. The world's creditor nation of today did not, like England of pre-war days, stand up as the pillar of economic strength and confidence when foreign markets were prostrated by panic. On the contrary (and it is not an entirely pleasant recollection) our markets proceeded to outdistance Europe's in the extravagance of fright, and our people began to talk of voluntarily surrendering our public credit and our standard of value merely because England had been forced by exceptional circumstances to do it.

Fortunately, there is reason to believe that the time is coming when the United States will resume its proper place. Our Federal Reserve set the example when it met with serene confidence the panicky rush to Europe, last October, to draw out gold from America. Our Government has set the example in the courageous pledging of the public resources to meet the real needs of the situation and stop the ravages of panic.

What the Reconstruction Plan Means to Your Bank

(*Continued from page 490*)

chise, capital, reserves, surplus and income, is exempt from all taxation, Federal, state or local, except that any real estate shall be subject to state, county and local ad valorem taxes. The corporation is required to file quarterly reports to Congress, indicating the aggregate of loans outstanding to each class of borrowers.

In his testimony, Governor Meyer emphasized the similarity between the new institution and the War Finance Corporation.

"We had in the War Finance Corporation in 1921 an emergency finance corporation with a somewhat narrower field of operation," he said. "From August, 1921, to Dec. 31, 1924, the work involved the making of loans for agricultural purposes to some 4,317 banking institutions, mostly country banks; the making of livestock loans, principally on cattle and sheep, to some 114 livestock loan companies. . . .

"The principal effect of its work is not to be measured by the amount of money loaned. An important element in the situation was the restoration of confidence. An important element in the restoration of confidence was the very large amount of resources available to the institution.

The Result

"IT had available $500,000,000 of capital and was authorized to borrow, by issuing bonds, up to $1,500,000,000, none of which, however, were issued because the capital paid in was adequate.

"The total amount of loans to banks was $172,000,000. The highest amount of such loans outstanding at one time was about $134,000,000. In May, 1923, a year after the peak had been reached, the amount outstanding had been reduced to $60,000,000; a year later to $37,000,000.

"Loans to livestock loan companies aggregated $88,000,000. The peak was approximately $60,000,000. About a year later it was $40,000,000, and two years later it was $26,000,000.

"The main effect was, I think, indirect. For example, a country bank in a western town with small resources was weak and in danger. The other three larger and stronger banks were calling in their loans and refusing to put out new money because they feared what might happen to them in case the weaker bank failed. The War Finance Corporation, by making a moderate-sized loan to the smaller bank, helped that institution, of course, but it did much more by freeing from fear the management of the three stronger and larger banks so that they could go ahead and use their resources.

"I think the same consideration is a key factor in the present situation.

"We did not have losses of any magnitude, and we returned to the Treasury much more than many people expected."

Under questioning, it was brought out that $64,000,000 more than the capital was returned, Governor Meyer characterizing this amount as "earnings without deducting the cost of the money to the Treasury."

An apt reflection on the purpose and timeliness of the corporation was developed by Frederick H. Ecker, president of the Metropolitan Life Insurance Company. After urging that the loaning powers be amended so that not market value alone, but average sustained earning power as well, would be the index to whether loans were

Six Directors of the Reconstruction Board

PAUL BESTOR, formerly president of the Federal Land Bank of St. Louis and member of the Federal Farm Board.

OGDEN L. MILLS, who has just been appointed Secretary of the Treasury, succeeding Mr. Mellon, who resigned to become Ambassador to England. Mr. Mills has had an extremely active career in business and public life, and served during the World War as an army captain. He has acted as counsel to many large corporations and holds a number of important directorships.

HARVEY C. COUCH has been active in the organization and operation of public utilities since 1904. He was Federal Fuel Commissioner during the war and at other times has served as chairman, American Red Cross, and director of the Arkansas State Flood Commission.

JESSE H. JONES, banker, lumberman, real estate operator, publisher, and director of General Military Relief of the American Red Cross during the war.

CHARLES G. DAWES, former Comptroller of the Currency, organizer and president of the Central Trust Company of Illinois, Brigadier-General United States Army, first Director of the Federal Budget, gave his name to the Dawes Plan, was Vice-President of the United States, and until recently Ambassador to England.

EUGENE MEYER during the war was Managing Director of the War Finance Corporation. He served as Farm Loan Commissioner and is now Governor of the Federal Reserve Board.

WILSON MCCARTHY, who does not appear in the above picture, is a banker, lawyer and stock man, and has been active in taxation revision.

"fully and adequately secured," Mr. Ecker was questioned thus:

Senator Walcott: Is it an emergency that makes the time element very important?

Mr. Ecker: I think it is.

Senator Blaine: But this same emergency existed last June, didn't it?

Mr. Ecker: No.

Senator Blaine: When did the emergency first arise?

Mr. Ecker: It is a progressive emergency. We are getting to what might be reasonably thought is the crisis of this situation. I think this financial disease might be likened to a disease of the human body, and diseases come to the crisis stage. In the case of pneumonia, we have inflammation, congestion, consolidation and resolution.

Senator Blaine: Now just what was the situation last June?

Mr. Ecker: I would think that consolidation then was setting in.

Senator Blaine: Well, then, the next step in the case of pneumonia means death?

Mr. Ecker: Unless the patient gets past the crisis. Now, Senator, I think this country and this business of ours is not going to die.

Senator Blaine: But the time to have saved the patient was before he got through these various stages of physical disability.

Mr. Ecker: If you are speaking of preventive medicine, that would be before inflammation and congestion came on. But we are not dealing with preventive things here. We are going squarely into the disease and we must get through it and bring the patient out well.

Congressional Reasoning

THE intent of some provisions of the Act becomes clearer in the light of the reasoning which led to alterations of the plan during its preparation. The purpose of Congress with respect to the provisions for a limit of $100,000,000 on any one loan, for the earmarking of $50,000,000 of the capital for loans to farmers by the Secretary of Agriculture, and for the restriction against loans collateraled by foreign securities is fairly obvious in the light of other Congressional actions during the current session.

Just what the policy was to be with respect to loans to closed banks, however, was uncertain up until the conference committee rejected the Senate's opposition on this point.

The question first was brought into prominence in the testimony of Melvin A. Traylor, president of the First National Bank of Chicago, before the Senate Committee on Banking and Currency.

"My own feeling," Mr. Traylor declared, "is that one of the biggest services this corporation could render would be that of unfreezing and making available some portion of the funds tied up in closed banks. That sum is estimated now in the neighborhood of $2,000,000,000. That sum taken out of

circulation, withdrawn from buying power, is probably as big a handicap to a return of prosperity or the restoration of business as the unemployed.

"If, on the one hand, a substantial portion of the deposits in closed banks could be made available; and if, on the other hand, the very making available of that sum results in the future assurance that deserving banks can operate, and in the stimulation of public confidence which brings money out of hoarding, it is altogether possible to add a billion dollars to the circulation of the currency in this country in a very short time."

Question of Rediscount

ANOTHER important point of disagreement between the two branches of Congress had to do with the eligibility of the corporation's securities for rediscount at the Federal Reserve banks. Senator Carter Glass led a successful opposition to rediscountability. Its proponents urged that it would tend to increase the marketability of the corporation's securities among banks, perhaps improving the corporation's borrowing rate. The following colloquy illuminates this point:

Mr. Traylor: I personally do not favor giving these debentures any privileges of rediscountability at the Federal Reserve banks. My own judgment is that . . . . the Treasury and the Federal Government would be money ahead if they finance the entire operation of this corporation (by direct sale of the Government's own securities). Then their paper certainly is available and eligible for rediscount with the Federal Reserve banks.

Senator Glass: It certainly ought not to be. Is not the Federal Reserve System owned by the stockholding banks, the member banks?

Mr. Traylor: It is, sir.

Senator Glass: The Government of the United States does not own a dollar of interest in it?

Mr. Traylor: No, sir.

Senator Glass: Well, wherein exists the equity of requiring the Federal Reserve System to support the credit of the United States Government, which does not own a dollar of it?

Mr. Traylor: Well, of course, I do not think it does in times of peace. In times of war, anything goes.

Senator Glass: Yes, but the Federal Reserve cannot stand everything. It cannot bear the entire burden of what I conceive to be bank mismanagement and the spirit of speculation that pervades the whole nation.

Mr. Traylor: Senator, you and I will not disagree in our jealousy for the protection of the Federal Reserve System. I think today it is the world's single sound financial structure—Government structure—semi-government—and I am as jealous of its protection from invasion by all kinds of junk as any living human being can be.

When it was intimated indirectly that aid by the Reconstruction Fi-

nance Corporation to closed banks would be tantamount to "liquidating bankers' mistakes," Mr. Traylor made a reply that has application far broader than simply to the affairs of the new corporation. The testimony ran:

Mr. Traylor: I think it can be successfully maintained that the disaster which has overtaken the banking business is not due to the system of banking we have. It is not due to the character and quality of the supervision, nor is it attributable to the management of the banks in the main.

We must remember that now we are looking back, and from this vantage point most of the things that all of us did over a period of five or six years now look foolish. But we were living in that atmosphere, and, being human beings, we reacted to it.

Senator Glass: Well, but did not the foolish things cause the collapse?

Mr. Traylor: Oh, no, not at all, Senator, in my judgment. If it did, then not the banker alone is to blame. Because every captain of industry, every politician, every statesman—all did the same kind of foolish things. Some did not, but I am speaking in the aggregate.

I have no apology. I am trying to present the picture that the banking business finds itself in. I say the banks were reasonably intelligently run. And the best proof of it is that those that have failed, from their maximum of deposits to the date of their closing, paid from 50 to 75 per cent of them on demand. Now, no bank has been badly run that can do that, I don't care what bank it is, anywhere.

The new corporation is different from, and broader than, existing agencies. Take, for instance, the Federal Reserve System. Going beyond its range, the Reconstruction Finance Corporation can deal in slow but good assets, rather than simply liquid commercial paper. Moreover, instead of embracing only member banks, its operations extend to non-member banks, closed banks, railroads, and a long list of other financial institutions. The new corporation goes beyond, in a sense supplements, existing agricultural credit agencies in financing transactions which are sound and necessary but which may not comply with the letter of requirements of existing institutions. Or, where the latter are loaded to capacity, it helps to take up the excess demand.

Just how much capital the corporation will call from the Treasury, just what volume of bonds or debentures it will issue, just how extensively it will loan or be called upon to loan, are elements which can be developed only in the course of actual operation. Suffice it to say that, in the eyes of its sponsors and in the language of the Act creating it, the corporation stands ready as a flexible force to perform any reasonable jobs which may be laid upon its doorstep.

The Glass Bill Is a Medley

(*Continued from page* 498)

issue of Federal Reserve notes as at present. Bankers' acceptances based upon a revolving or renewable credit also are declared ineligible as note circulation collateral.

These provisions of the bill in relation to the use of paper secured by Governmental obligations as collateral for Federal Reserve note circulation are perhaps the most important affecting the Federal Reserve, and probably will lead to most controversy. The larger part of the eligible paper held by the Reserve against its note circulation consists of bills based upon Government bonds. If such paper is declared ineligible for the purpose, the Federal Reserve will be compelled to increase its holdings of other eligible paper or increase the gold backing for the notes in proportion, since at most times the amount of other eligible paper available is inadequate; at least it may become inadequate. The increased demand on gold stocks under the present volume of business and with an unusually large volume of notes outstanding would amount to between $300,000,000 and $400,000,000.

A very large part of the increase in the monetary circulation of the country in the past year for other than strictly business purposes has been based upon Government bond secured paper, and a withdrawal of the note collateral privilege from this paper would render it exceedingly difficult for the Reserve Bank to supply the demand for currency. There are many bankers who believe that these restrictions on loans and upon the use of Government obligations as collateral would be fatal to the entire Federal Reserve System and would seriously affect the price of Government securities by reducing their usefulness to bankers.

Branch Bank Issue Avoided

THE bill is strictly a "unit bank" measure. Frankly speaking, it dodges the branch banking issue. It would permit national banks to establish statewide branches in those states which permit branch banks by the state institutions, "tentatively restricting the privilege to states where branches are allowed." In other words, branch banking by national banks outside of their home town is to be limited solely to the privilege which may enable them to meet the competition of state banks in this respect, and the Comptroller's idea of trade areas in branch banking is entirely ignored. The privilege also is limited to parent banks with a capital of $1,000,000 or over, and definite capital must be assigned to each branch with a minimum of not less than the minimum capital of a national bank.

Further support of the unit bank idea is indicated in the comparatively stringent regulations governing chain and group banking in which a national bank is involved. In groups and chains no corporation or partnership owning more than 10 per cent of the national bank's stock can vote such stock at the election of directors except by permission of the Comptroller, which permission shall be granted only when the owners agree to accept certain conditions which place them under Government supervision and control.

The group banks are required to get rid of all stocks and bonds of affiliates; they are required to submit to concerted examination and publicity reports, to maintain effective double liability by deposits with the Comptroller, and accept certain other

regulations now imposed upon national banks. It will be recalled that each of these provisions covers objections to group banking brought out in the House committee hearings two years ago. Groups and chains which include state banks only are not affected. In no case does the bill attempt to override state boundaries or state laws.

The Liquidation Corporation

PERHAPS the portion of the bill of most immediate popular interest is that providing machinery to enable depositors in suspended banks to secure at least a part of their money without waiting for the liquidation of the banks. There are several bills before Congress to set up corporations for this purpose, the most notable being what is known as the Thomas-Beedy bill which provides for such a corporation whose capital shall consist of $50,000,000 taken from the surplus of the Reserve banks and whose operations shall consist of taking over such assets and working them out on a revolving fund basis. This corporation would be outside of the Federal Reserve. The Glass committee bill proposes to use this general idea by setting up such a corporation within the Federal Reserve. Federal Reserve banks would be required to subscribe to the capital of this "Liquidation Corporation" to the amount of half their surpluses. With total surpluses of $274,636,000 as of December 30 last, this would provide a capital of $137,318,000.

Upon the suspension of a member bank, state or national, the corporation would make an immediate examination by its own accountants, appraise the bank's assets and promptly pay to depositors as large a proportion of their deposits as the situation justified. This plan is to be a permanent arrangement. For non-member banks the bill provides for an appropriation of $200,000,000 to be handed over to the Liquidation Corporation as needed; and for a period not exceeding two years from the time the Act goes into effect the corporation may purchase, and for a period not exceeding five years may hold and liquidate assets of any closed non-member bank, make loans to them and secure their reopening under the same terms as those applying to national and member banks—all this, of course, where state banking laws do not prohibit such an arrangement. In both cases the privilege would apply to banks already closed.

The use of Federal Reserve bank reserves in this corporation is expected to be profitable, and this profit, it is anticipated, will afford an additional attraction for membership in the Federal Reserve System, for it is proposed to divide this profit, 70 per cent going to the revolving fund of the corporation and 30 per cent going to member banks as an additional dividend on their stock above the ordinary cumulative 6 per cent. How much such earnings would amount to is doubtful. In view of the fact that something over $1,000,000,000 worth of assets are now tied up in suspended banks which could pass through the Liquidation Corporation, the earnings might become considerable.

The Senate committee evidently has not taken kindly to the idea of the Federal Reserve committee which investigated the subject of member bank reserves and recommended that these reserves should be regulated largely by the daily turnover of deposits and that through these reserves a certain amount of credit control could be exercised. In its bill, the committee proposes a new method of calculating reserves based substantially upon present rates. It proposes a segregation of assets in a bank so as to give slow deposits a priority lien on slow assets, distribut-

ing bank reserves accordingly. It establishes what it terms "thrift" deposits, defining demand deposits as those payable within thirty days; thrift deposits as those payable after not less than sixty days' notice, not subject to check and the monthly balance of which in any one case shall not exceed $5,000; and time deposits as all those payable after thirty days' notice, all savings accounts and all postal deposits.

Against deposits as thus newly classified member banks not in reserve cities shall maintain balances with the Federal Reserve as follows: 7 per cent of the aggregate of its demand and time deposits and 5 per cent of its thrift deposits provided that the net balance against time and thrift deposits shall be 3 per cent during 1932, 4 per cent during 1933 and 5 per cent during 1934, and against time deposits 6 per cent during 1935 and thereafter 7 per cent. In a reserve city the rate is to be 10 per cent for time and demand deposits and 5 per cent for thrift deposits, these rates to be reached by 1 per cent increases annually as in the case of the non-reserve cities. In central reserve cities the rates are to be 13 per cent of demand and time deposits and 5 per cent of thrift deposits, working up to these rates by 1 per cent annual increases in the same way, the idea being to establish time and thrift deposits upon a new and uniform basis by gradual adjustment. A new classification of cities as reserve, central reserve and non-reserve cities is to be made.

These thrift deposits are considered as corresponding support for real estate loans. The provisions of the Reserve Act regarding real estate loans are to be modified, the total amount of such loans being limited to 15 per cent instead of 25 per cent of the bank's capital and reserves, or to one half its time and thrift deposits. Investments in bank premises and unsecured loans whose ultimate security rests upon real estate, are included in this limit. All the property of an insolvent national bank acquired under this section of the Act shall be applied by the receiver in the first place ratably and proportionately to the payment in full of its time and thrift deposits.

Interest on Deposits

THE bill also proposes to go into the legal regulation of interest rates in a manner which will be welcomed by many banks. In the first place, it provides that no national or member bank shall promise to pay interest on deposits in excess of one half of the interest rate specified by law in the state where the bank is located, and when the depositors are other banks which have balances in other banks, the rate of interest on such deposits shall not exceed the current rediscount rate in the Federal Reserve district or in excess of $2\frac{1}{2}$ per cent, whichever is smaller. Since there is a 6 per cent limit on interest rates in 35 states, the effect of this provision on the cost of savings deposits to member banks is evident.

The proposed law also would work the other way, for it allows national banks to charge the legal rate in the state in which they are located, or 2 per cent above the Federal Reserve rediscount rate, whichever is higher. If no rate is fixed by law, they may charge a rate of not more than 7 per cent or 2 per cent above the Federal Reserve rediscount rate, whichever is higher.

The reason given by the committee for these provisions is that in periods of depression and distress when a Federal Reserve bank may find it necessary to raise its rediscount rate to 5 or 6 per cent, it is impossible for

member banks to secure any accommodation from the Federal Reserve except at a loss when the legal rates authorized in the state may be only 6 per cent. The proposed law would thus give banks a spread of 2 per cent between their loans and their borrowings from the Federal Reserve. The provision cannot apply to state member banks since the latter are controlled by the laws of their states.

No Bank Stands Alone

(*Continued from page* 502)

phase of banking the public is running our business.

There is no banker who does not know that his institution renders some services free for which it is entitled to collect a charge or fair return. Why are we not charging for these services? We would like to and yet we don't. Why? Because Mr. John Public is running this end of our business and he does not want to pay for those services.

It is about time that we start running our own businesses.

Profit producing policies cannot be adopted without a high degree of cooperation. To put it simply, without working together we cannot make money and if we cannot make money we cannot continue in the banking business.

Interdependent

IF the unit system of banking is to live it must become an interdependent system of units. No one of us can stand alone. This is most particularly true in this hour of depression. We must either hang together or hang separately.

Cooperation is a mark of intelligence. A visitor to an insane asylum was astonished at seeing only one guard in a ward of fifty violent patients. When he remarked to the guard that if the patients ever got together they could tear him limb from limb, the guard replied, "Get together! They will never get together, they're crazy."

If there ever was a time in the financial history of this country when cooperation, or working together, was an economic necessity it is right now. The unit system of banking is being put to a severe test, but it is not so much the unit system alone that is being challenged. Confidence and trust in the system of capitalism itself has been rudely shaken. With hundreds of millions of dollars of currency and gold being hoarded in this country we may be sure that the challenge is far flung indeed.

What is to be our answer to that challenge to our chosen profession? There is but one answer and it does not lie within the realm of telling bluebird stories about prosperity being just around the corner. The answer is better management. We shall make banking a profession indeed, in which skilled experts alone are employed. We shall know our costs, we shall know our credits and we shall know our reserves. We shall have the courage to run our own businesses and make adequate charges for our services, and above all, we shall have the intelligence to cooperate with each other in the highest degree through city and regional clearing-houses; and state, sectional and national associations. We shall pool our strength through the agency of the National Credit Corporation. Our attitude will be one not of defiance but of firmness.

That is to be our answer to the challenge, and if we take that stand courageously and intelligently and with a united front, then there is not the slightest doubt as to the outcome of this severe test.

The Standard Is Gold

(*Continued from page* 512)

and so we might go on throughout the borrowing countries of the world. We also know that in every case many of the things those countries must import have not fallen in price proportionally.

Our Own Mistakes

WHEN we in the United States are over-borrowing in our states, and cities, and increasing our taxation in all government beyond reason, and now find ourselves suffering from the effect of such unjustifiable operations, are we in position to criticize the countries of South America, for instance, which now find themselves unable to obtain the necessary units of foreign exchange to meet their debt charges? They may have over-borrowed as we have, but in any event they are now faced with a great falling off in the number of units in foreign monies which they receive for the products upon which they must depend to take care of their debt charges.

Are we justified for purposes of making political capital, or otherwise, in even suggesting that there may not be intent to pay or that the loans undertaken may not be good?

The bankers and the business men of the United States who have analyzed this situation realize fully that we are not justified in criticizing intent nor in taking it for granted that because of the depression of the moment the nations which owe this country, their governments and their people, are going to repudiate their debts.

Benefit of Hindsight

FURTHER, we know that if in those countries they learn the lessons that show so clearly when we exercise our hindsight, and curtail their borrowing for a time and bring their taxation within bounds that the natural growth of the volume of business will make it possible for them to overtake their debt charges.

We know that the funds loaned those countries have helped them in the upbuilding of their countries, even as our foreign borrowings helped the people of the United States. We attribute no lack of integrity nor intent to pay on the part of the other nations of the world any more than we expect our own nationals to repudiate their debts even in some of our cities where expenditures have been all out of proportion to possible income on a continuing basis.

If there is intent to pay on the part of a people they can pay, but if there is one thing above all others that we can do to discourage a nation in debt to us it is for us to separate the mistakes which they may have made from the mistakes which we have made and attribute to them less of integrity than we insist upon for ourselves.

It is the hope of the bankers and business men of this country, that those in foreign nations will realize that just as they have forces within their countries which for political purposes criticize our people, a condition which we fully understand and appreciate and accept as mere political opportunism, that we have to our regret similar political developments that often result in unfair criticisms of other nations. We hope that they in turn will also recognize such criticism as mere political opportunism and not interpret it as representing our national point of view.

We would ask these nations to bear with us, even as we are glad to bear with them and realize that the sound

thinking men of our country are not carried away nor influenced by those things political which make it appear as though we questioned their integrity of purpose.

It is our hope that as the years go on we will continue to have a growing and mutually satisfactory international business that will result in international investments, international trade, and international goodwill and understanding.

Behind the Bond News

(*Continued from page V*)

for taking care of a situation. But it is to be noted that the success of the plan is inseparably linked with the maintenance unimpaired of the Treasury's borrowing power.

ONE hears from London that one of England's most noted economists looks with much favor on the budget deficit which the United States Treasury has been running up, holding that increased use of government credit during a severe deflation is necessary if the price decline is not to become calamitous. It is possible to agree with him only until late last summer; since that time the deficit has been changed from an asset to a threat. Up to the middle of last September the credit of the Treasury was in unexcelled condition. A long term bond was sold with the very low coupon of 3 per cent, and by means of discount bills the Treasury could raise funds for ninety days at around 1 per cent. But about that time lenders all over the world began to scrutinize more closely the budget position of governments. Beginning directly after the suspension of gold payments by Great Britain on Sept. 21, the obligations of the Treasury started to suffer marketwise. The reason is not far to seek. It was due in considerable part to a sympathetic vibration with the position of Britain. Here was a government, whose credit had been second to none throughout financial annals, which endured an unbalanced budget condition a trifle too long. Here, too, was a government which was applying a brake to the deflation through a generous use of its credit. When it attempted to mend its financial ways the situation had got quite out of hand.

One would stray from the facts if one attempted to draw too close a parallel between Great Britain's position and our own. For Britain was weakened by the cumulative effects of a long period of departure from the accepted principles of sound finance, while our own condition is of recent origin, capable of being promptly remedied by a bold application of the taxing power and the whittling down of unneeded expenditure. So far in the current fiscal year we have amassed a deficit of approximately $1,500,000,000. The Treasury is having to enter the market every few days to fund maturing issues and to put itself in new money, and the outstanding debt is growing. That condition cannot long continue. It has been abundantly demonstrated that the Treasury Department is fully aware of the need for action. It is essential that the country impress Congress, which on the whole has comported itself with credit, with the realities of the situation in order that prompt action may be achieved. The declines in long term government bonds since the close of the year bespeak eloquently the insistence of the market on a program of economy by Congress.

PROMPT handling of the budget situation is needed also as a reminder to Europe that the dangers of

a reckless inflationary policy are appreciated here no less than abroad. The opinion has got around Europe that because this country has shown a disposition to want to take hold of the deflation and eradicate its causes, rather than sit supinely and fatalistically by and wait for the "turn," it is playing with fire. Foreign depositors, whose skittishness can scarcely be matched, have been repatriating their funds here, and gold has begun again to go out. Thus there are kindled anew those international fears that have been causing enterprise to hold back for many months. It needs to be demonstrated, first of all by a balancing of the budget, that the United States is appreciative of and committed to the tenets of wise finance. The bugaboo of inflation in this country would be raised much less often if the nation should adopt the policy of living within its income.

With Europe reassured, the way for world wide business recovery would be the better cleared. To a great extent, it is true, the United States is self-contained; it is conceivable that business could recover measurably from present levels with the European situation still clouded. But it is not to be doubted that business in this country would go ahead more confidently if calmness and serenity should unmistakably return to the troubled world. One of the prime essentials for an appreciable recovery in trade is a reopening of capital markets to foreign flotations. There are those in this country who hold to the view that it will be a long time before the American public is receptive to fresh offerings of foreign obligations. There has been enough and to spare of defaults, and unwise loans have been made. The situation, however, is far from hopeless. At the slightest indication that progress is being made toward settling the reparations problem many of the foreign issues dealt in here forge ahead. They have, on the whole, given a fair account of themselves in recent weeks, and those in close touch with the market realize that the improvement in many of the prime foreign obligations would be gratifying indeed if a semblance of order were restored to the international political realm. Much work lies ahead in rehabilitating many currencies. Without assistance from the capital markets this task would present grave obstacles. But with countries like Britain, Japan and Scandinavia, whose credit enjoys prompt rallying power, leading the way, progress can be made in reopening capital markets and diffusing the benefits of stable currencies and improved trade to lesser nations.

ONE of the most salutary occurrences of recent weeks has been the forcible impressing on the minds of certain city officials scattered over the country of the fact that a depression was in our midst, imposing upon them a few inescapable obligations. In the more than two years since the panic of late 1929 most persons had adjusted their expenditures to the realities of lower price levels and lower income, but city governments here and there had not felt it necessary to make these adjustments. The attention of the city officials of New York was unmistakably called to the fact that a depression was at hand by a group of bankers representing the entire banking community, and the result is the city officials have proved themselves to be reasonable men. After assurances of co-operation in adjusting expenditure and tapping sources of revenue heretofore imperfectly used or not used at all, New York banks arranged the flotation of $100,000,000 of the city's corporate stock notes, maturing in three to five years. The public response was extraordinarily good, and the beneficent

effects of this development have reacted to the benefit of municipals generally.

The incident may well serve to illustrate anew the fact that capital to absorb investments has not gone permanently into hiding. It can be made to reappear if it is sufficiently demonstrated that the borrowers have honorable credit records and are alive to the exigencies of the present situation. The immediate future of the bond market may well depend on the awareness displayed by Congress to the dictates of sound finance and the need for expedition in bringing them to bear on government income and expenditure.

Two Plans for Bank Stability

(Continued from page 508)

tions for their mechanical usefulness will tend to keep them alive and will be an everyday reason for their existence during times when there are few real problems to be dealt with.

These associations should have their own rules and regulations, but their constitutions and by-laws should be similar so that there will be uniformity of purpose and equality of standards. The affairs of these associations should be in the hands of committees elected by the members, who would agree to abide by their decisions. The associations should have the power to examine the members and require periodic reports as to their financial condition. They might maintain complete credit files for the use of their members covering the borrowers in the territory and could make investigations of commercial paper names. Detailed information in regard to securities could be assembled and a general service maintained to assist the members in the operation of their bond accounts. I am rather of the opinion that the State Banking Department and the Comptroller of Currency would be willing to assign examiners permanently to these associations, which would result in the closest kind of co-operation.

A. B. A. Efforts

THE American Bankers Association has been working on this idea for some time and it has been in successful operation in several states in the Middle West, and the banks report most satisfactory results. The expenses are small. What each contributes is infinitesimal compared to what it gains.

One of the most distressing results of the present situation is the locking up in the closed banks of the country of almost $2,000,000,000 of depositors' money. Experience has shown that the liquidation of these deposits is a slow and costly process and that the liquidating agencies have no choice but to sell the banks' assets for what they will bring, usually below book value, and often less than intrinsic value. The wholesale dumping of securities, mortgages and real estate depresses prices and destroys values, and the indiscriminate calling of loans works a hardship on individuals, firms and corporations, which often results in forcing them to realize what they can on their assets. It is a vicious circle. Meanwhile, the depositors are without funds to carry on their daily operations, many communities are without banking facilities to handle their financial transactions and the good will and invested capital of the banks have been wiped out. Some means could and should be found to deal with this situation more scientifically and more sensibly and, at the same time, protect the interests of creditors and provide for the un-

interrupted payment of deposits to the extent practicable.

Alternative to Closing

WHEN in the opinion of the proper governmental authority a bank should not be allowed to continue to operate, the law should give that authority the alternative, either to close it, as at present, or to reorganize it along the following lines. Transferable certificates would be issued to the depositors for a portion of their deposits so that the remaining deposits would, in the opinion of the superintendent of banks or the Comptroller of the Currency and the board of directors, be covered by sound assets at current values amounting to not less than 120 per cent of such deposits. These remaining deposits and any new deposits would share alike in the assets of the bank. The holders of the certificates would receive interest semi-annually, not to exceed 4 per cent per annum, if earned after necessary and proper charge-offs, and if approved by the superintendent of banks or Comptroller of the Currency. This interest would be cumulative up to 4 per cent per annum, and no dividends would be paid on the capital stock while any certificates are outstanding.

Whenever, subsequently, an official examination should credit the institution with net sound assets, at current values, greater than the amount by which they exceeded the marked down deposits at the time of reorganization, such increase would be used to pay down the certificates proportionately. The certificate holders would have the option, at any time, to convert their certificates into stock at the book value as shown by the last official examination.

A stockholders' meeting should be held shortly after the date of reorganization for the election of a new board of directors, who would elect officers. Former directors and officers would be eligible to succeed themselves. Each certificate holder would have the right to vote as though the face value of his certificate represented par value of stock. The double liability of the old stockholders should be preserved while any certificates are outstanding.

A reorganization would be futile unless the reconstituted institution has the confidence of the community and the support of its depositors and should not be undertaken unless the management is efficient and honest. I believe that there are instances in which such a reorganization could have been worked out and would have prevented banks from closing; perhaps, it would permit the opening of some that are now closed. At any rate, it seems that some such plan is worth trying, for if it succeeds it will accomplish much, positively and negatively, and at the same time the interests of creditors will not be jeopardized.

Faith in the Nation

WE bankers are facing problems and difficulties today which seem hard to solve and which, perhaps, at times, seem overwhelming. I am afraid that we have been tempted to lose faith, even in the soundness of our economic structure, and that we have permitted our minds to dwell on the unprofitable and entirely useless thought of what might happen. America's resources are unimpaired. The capacity of its people is as high as ever. Its forty-eight states are still great reservoirs of energy, inventiveness, self-reliance, and idealism. It is not threatened by war nor physical disaster and its farms and factories are abundantly productive. Potentially its economic mechanism is magnificent, but its people are somewhat bewildered and its natural optimism has been temporarily obscured.

A Brighter Outlook for the Railroads

(*Continued from page* 501)

the reduced shipping rate accorded his competitor. In this way both shipping and industry are headed for bankruptcy under such unregulated form of competition.

Regulation of Shipping

THE effect of water transportation on our canalized waters is much the same. The railroads are not permitted to take part in the transportation of water-borne traffic. There is a measure before the Senate today, known as the Johnson Bill, which would put all water-borne traffic under the Shipping Board. The ideal situation would be to put it under the Interstate Commerce Commission, but so far as I am concerned I should be quite satisfied to see it regulated by the Shipping Board because after all that is a first step. If we can get it that far, I am satisfied it will be only a question of time before the regulation of shipping will logically come under the Interstate Commerce Commission. President Hoover has recommended that the Shipping Board activities, other than regulatory, shall be assigned to the Secretary of Commerce, so in that respect we have the President behind the project to regulate the waterways. That, I think, is a great step.

We have recently gone through the throes of a rate increase. Entirely apart from its funny side, the material side is interesting. The Interstate Commerce Commission gave the railroads approximately a $100,000,000 increase, but it was taken away from them as soon as it was given, in this way: The Commission said that the money raised by the increases should be given to needy railroads in order to help pay the interest on their bonded debts, etc. We objected to that and proposed, instead, to establish a credit corporation to which the money would be turned over for the purpose of lending it to the needy railroads. Well, that plan now is in process of operation, and the Railroad Credit Corporation is commencing to work. That is another good thing.

After two weeks of negotiation in Chicago recently a wage reduction was arranged with the voluntary consent of the workers. This was a triumph for labor and railroad diplomacy and a great achievement. It will mean some $220,000,000 to $230,000,000 decrease in the operating expenses of the railroads.

Now the formation of the Reconstruction Finance Corporation, which I have already mentioned, has this bearing upon the railroads: The railroads today have something like $250,000,000 to $260,000,000 of securities maturing during 1932, and about an equal amount in 1933. This is without taking into consideration the outstanding short-time paper, which I approximate at $150,000,000. It looks to me, therefore, as though the railroads would have about $400,000,000 of maturities, either short or long term, to meet in 1932. If these are not met, the defaulting roads are going to go into receiverships.

The necessity for keeping our banks liquid—and that is the fundamental trouble—makes it almost impossible, and I know undesirable, to borrow that money from them. Therefore, the Reconstruction Finance Corporation is going to be the place to which we will go.

Bus regulation is in the process of going through Congress. Truck legislation has not as yet been started, but I am perfectly sure it will be.

The recommendation of the Interstate Commerce Commission as to what we call Section 15a of the Transportation Act, including the so-called Recapture Clause, is very important. The Recapture Clause was put in the Act in 1920 in the hope that it might get the Interstate Commerce Commission to realize its responsibility for seeing that rates were made sufficient to maintain the credit of the railroads. But the trouble has been that when times were good the railroads have not been permitted to earn, by increased rates, the amount of money that they could and should have earned. Accordingly, when times were bad, and rates should have come down, we have had to increase them instead. Well, it does not take much intelligence to realize that when times are good we ought to be making money and putting some of it away, and when times are bad we ought to be taking our medicine with industry and helping industry to build up. In other words, instead of having to increase rates when times are bad we ought to be able to reduce them.

Another Important Step

IF we can get Congress to repeal Section 15a, with its so-called guarantee—which never was a guarantee, never pretended to be a guarantee, though most people thought it was, and the expression was always used to the disadvantage of the railroads—if we can get that out of the way, I am

perfectly satisfied that we shall have taken another great step forward.

The recommendations of President Hoover have been particularly helpful, and if we can lay aside politics, partisan politics particularly, I am satisfied that this Congress can do a great deal of good in following out his suggestions.

The railroads are the backbone of transportation. They are going to continue to be the backbone of transportation. The other forms of transportation—the bus, the truck, and the waterways—are all auxiliary and complementary. My belief also is that the railroad securities of the country are today the backbone of the insurance companies, the banks, the savings funds, and I believe they are going to continue to perform that important function properly.

What Your Association Is Doing

(*Continued from page* 519)

Under Mr. Clark's editorship the JOURNAL has grown into a magazine of national and international reputation.

The JOURNAL and its readers wish him well.

Eastern Savings

SAVINGS bankers representing states throughout the eastern section of the country met in New York Jan. 28 and 29 for their annual eastern regional savings conference, to exchange ideas and work out a common solution to their investment problems. Jay Morrison, President of the Savings Division, and vice-president of the Washington Mutual Savings Bank, Seattle, presided at the sessions. At a luncheon the first day Dr. Otto Carl Kiep, German consul general in New York, spoke. At a luncheon the second day an address on "Manchuria" was given by Charles K. Moser, chief Farm Eastern Section, Department of Commerce, Washington. Those present at the banquet had the unexpected privilege of hearing General W. W. Atterbury, president of the Pennsylvania Railroad, discuss the economic problems of the nation, with particular reference to the status of the railroads. Speakers at the banquet, in addition to General Atterbury, were Roy Dickinson, associate editor, *Printers' Ink*, and Ralph E. Flanders of Jones & Lamson Machine Company, Springfield, Vt.

Mid-Winter Trust

THE program arranged for the mid-winter trust conference in New York, Feb. 16, 17 and 18, is expected to draw a large attendance of trust men from all parts of the country. There will be six main sessions devoted to current topics of importance to fiduciary institutions with most of the emphasis on new ideas for increasing business volume and profits. Thomas C. Hennings, president of the Trust Division and vice-president of the Mercantile-Commerce Bank and Trust Company, St. Louis, will preside at the first, fourth and sixth sessions and also at the banquet, Feb. 18. R. M. Sims, vice-president of the Trust Division and vice-president of the American Trust Company, San Francisco, will preside at the second session and W. M. Baldwin, president of the Union Trust Company, Cleveland, will act as chairman at the third. The presiding officer of the fifth will be H. L. Standeven, chairman of the Executive Committee of the Trust Division and executive vice-president of the Exchange Trust Company, Tulsa, Okla. The subjects to come before the conference, in the order of their discussion, will be how to obtain new business, insurance trusts, investments, relations with the bar, public relations, accounting and various timely legislative questions. Ralph Stone, chairman of the board of the Detroit Trust Company, Detroit, will speak at the banquet.

Directors

THE Bank Management Commission has received inquiries from nearly every state in the Union concerning the booklet called "Bank Directors—Their Legal and Moral Responsibilities." Hundreds of banks have found the booklet of value in enlisting the active, helpful cooperation of directors in the management of the institution. Frank W. Simmonds, Secretary of the Commission, says that one of the Federal Reserve banks wanted several thousand copies for distribution among directors of member banks in the district. Also several state associations have taken the initiative in obtaining the booklets for their respective members. "A copy should be put in the hands of every bank director," writes an Oregon banker, and that just about tells the story.

51,000,000

"PROSPERITY comes faster to those who save regularly" is the slogan used on the first 1932 poster which the Savings Division has prepared for its members. It also carries the encouraging information that more than 51,000,000 depositors in the United States have savings accounts.

Association members may receive a sample copy of this poster and the newspaper advertising portfolio on re-

quest to the Savings Promotion Committee of the Savings Division.

Washington Poster

DURING January the Association prepared for its member banks, a special advertising message in poster and blotter form, to tie up with the Washington Bicentennial observance this year. The purpose of the message is to help stabilize public thinking and encourage the forward movement of banking and business in general. Beneath a specially drawn portrait of Washington, the copy reads as follows:

"Does his spirit still live? Is his faith in the future of his country our faith? Is his will to make the best of difficult situations our will? Is his courage to overcome obstacles our courage? On this 200th anniversary of his birth let us take heart, face forward, march on."

The large volume of requests coming from member banks indicate that at least a million people will see this timely message urging renewed faith and courage.

Convention Calendar

Date 1932	State Association	Place
April 12-13	Georgia	Augusta
May 10-12	Texas	Austin
May 12-14	New Jersey	Atlantic City
May 13-14	New Mexico	Taos
May 17-18	Missouri	Excelsior Springs
May 19-20	Indiana	Indianapolis
May 19-20	Kansas	Kansas City
May 23-25	Illinois	Springfield
May 24-25	Oklahoma	Tulsa
May 24-26	Tri-States Convention (Mississippi, Arkansas, Tennessee)	Memphis, Tenn.
May 26-27	West Virginia	Fairmont
June 1- 3	South Dakota	Watertown
June 6- 7	Oregon	Eugene
June 7- 9	Minnesota	St. Paul
June 17-18	Colorado	Evergreen
June 23-24	Wisconsin	Milwaukee
June 23-25	Virginia	Old Point Comfort
June 25-26	Connecticut	New London
July 11-13	Michigan	Mackinac Island

American Bankers Association Meetings

Feb. 16-18	Thirteenth Mid-Winter Trust Division Conference	New York, N. Y.
April 21-22	Mid-West Regional Savings Conference	St. Louis, Mo.
April 25-27	Executive Council	White Sulphur Springs, W. Va.
June 6-10	A. I. B. Convention	Los Angeles, Cal.
Oct. 3-6	A. B. A. Convention	Los Angeles, Cal.

Bond Buying Is an Art

(*Continued from page* 491)

all, philosophy is essentially reflective and are we not examining the past with the idea of developing definite concepts for the present and future? Are we not trying to determine certain methods and principles which we can use for guidance? The key to the problem is this. Bond buying for secondary reserves and bond buying for investment are two very distinct operations which must not be confused. In the case of secondary reserves, only one year to eighteen months bonds are desirable and these must be high grade governments, high grade municipals, or unquestioned corporation credits. On the other hand, bond buying for investment, which we will call a "tertiary" reserve, is a different problem and one causing banks much concern today.

Where Diversification Counts

IT should not be necessary to narrate in detail the advantages of bonds for commercial banks any more than it is necessary to argue with a sick man as to the efficacy of a physician, but it is desirable to have the right kind of physician and not too many, even though I understand consultation is the order of the day. The hackneyed word, "diversification," really has some meaning here and there is just reason for investing a portion of the bank's funds in securities which will not be affected by conditions touching any particular community. The banks of one state in the Union were measurably aided by having bond accounts; perhaps there could be others.

The banks outside of the very largest metropolitan centers have a distinct problem. Suppose they do not invest in bonds, be they short term, medium term or long term. One of several things must happen. The money may be left on call or in the banks at a very low rate of return and if the institution has a secondary reserve of full strength, it cannot put an endless amount of funds in either of these channels without a terrific sacrifice of return. Another avenue open for the investment of this portion of the money which would not be in bonds would be loans on securities to people in local communities. There is reason and merit in so investing a portion of a bank's funds, but unless the institution is in a large metropolitan area where the personal element is comparatively insignificant, the investing of too large a portion in collateral loans to individuals in the community served by the bank will inevitably result in some embarrassment. In addition the liquidity is not there.

Commercial Loans

A THIRD outlet for these funds which are not going into bonds is additional commercial loans. A commercial bank to be true to its name must, of course, supply the commercial needs of the community and the country before investing funds in a bond market, but within the confines

of good banking these commercial loans are limited, especially limited as to the quality desired. The placing of these non-bond funds into marginal commercial loans is courting disaster. The pressure, be it conscious or unconscious, on loan officers when cash is piled mountain high is intense. It is far easier to acquiesce in loan making when cash is lying idle in banks than when it is properly invested in the various channels available to financial institutions. Let no one deceive himself as to this. Therefore, any debate becomes not one of bonds or no bonds but one of poor, unprofitable commercial loans, those venerable housekeepers, as against good bonds. Would we not consider a bank which had high grade securities — even though depreciated on today's markets —a sounder, more liquid, more profitable institution than one showing no bonds or few bonds and possessing a large supply of housekeepers?

Who sleeps the better, the man with high grade securities bought in proper amount or he with the marginal loans? There is then, from the standpoint of diversification, safety and liquidity, ample reason for purchasing bonds in the proper amount.

"But," one says, "look at the bond market and the banks today." First of all, we have been witnessing one of the most racking periods in American finance. All of the economic laws have not been able to assert themselves with the sweeping power of a steady stroke; on the contrary have they made themselves felt in spasmodic jerks, which tended to shake severely the frame of the economic body. Perhaps this absence of assertion of their power in orthodox fashion on the part of economic laws has been due to the teriffic spree on which the patient went in the halcyon days from 1926 through 1929—a spree both in the legislative and economic fields. However, the immutable laws of economics—and I contend that the basic ones are immutable—will make themselves felt in the future as they have made themselves felt in the past. There are many factors which can account for the seemingly peculiar action on the part of the bond market today, not the least among which are the character and quantity of bonds bought by the banks. I do not mean to intimate that these two points stand out like sore fingers on an otherwise well hand, but I do believe they are sore digits at the end of an ailing palm.

Landmarks

HOW many bonds then should a bank buy in this "tertiary" reserve as we have chosen to term it and what kind of bonds should it buy? I am not armed with a complete and definite answer to these questions. That is impossible, but it does seem as though we may set forth certain landmarks which, if constantly kept in mental view, would be of service. Bank bond buying should be more for the purpose of a satisfactory average return over a period of years and less for the purpose of making a profit through trading operations. The bond account must be a relatively permanent earning asset. One of course knows that it is possible to make a profit through buying bonds in times of tight money and selling them in times of easy money, but the successfulness of this depends largely upon two factors.

The first point is not to buy too many bonds, not to buy bonds with temporary funds so that the necessity will arrive for liquidating in a disadvantageous market. The second point is buy good bonds. Profits can be made sometimes, but to count on such operations with anything approximating the clock-like certainty which must guard the operations of a bank is dangerous. If the bond account is so arranged in the volume of funds employed that the securities can be carried through fair weather and foul, then provided the correct types of bonds are bought, there is indeed much to be said in favor of security portfolios.

What Are Time Deposits?

THERE are those who contend the size of the bond account can be determined by a correlation with time deposits, the theory being that time deposits are permanent and that a large percentage of such deposits can be invested in a bond account. In the light of practice, however, such a relationship does not hold, for is there any such thing as time deposits in the pure sense? To put into effect a thirty-day clause is to invite trouble and the practice is that time deposits can be withdrawn on demand, not after the giving of notice. As affecting the question of bank bond buying, the argument is often heard that banks gather up deposits of individuals throughout the nation and invest them in securities, that this is the normal channel for the flow of capital. There is, however, a very vital distinction between bank deposits representing the savings of individuals and individuals' savings. The former are subject to call; the latter are an entirely different matter, and if an individual wishes to purchase bonds with all of his funds, it is a different thing from a bank purchasing the same bonds with

the sum total of individual savings given it in the form of savings deposits. Of course, relatively speaking, there is a permanency in the time deposits as regards their fluctuation and to that extent it is a useful measuring rod in determining the size of the bond account; but it is not, to repeat, the sole measuring rod.

Others would use the size of the capital account as a guide to the volume of bonds, here too relying on the theory of permanency. The error in this case lies with the fact that more often than not the capital account itself is absorbed by the building, by real estate in one form or another, and frozen loans. Accordingly the bond account cannot always be used as an offset against this truly permanent investment of capital. Should the capital account not be absorbed by the building of real estate and non-liquid assets, it too may be put in the classification of a guide.

A Bank's Own Needs

THE condition of a bank's loan portfolio appears to be the factor of greatest weight in determining the size of a bank's bond account. The institution whose assets are liquid may purchase bonds to a greater extent than one whose assets are not so liquid and the institutions themselves are the sole guide as to the liquidity of their loans. This, one may say, is a mere truism and generality and hence of no value, but I know of no way other than through using these three pegs—time deposits, condition of capital account, and nature of the loan portfolio—as guides to determine the size of security holdings. It will take some time and some effort for each bank to review its loan history, its loan portfolio, and from that determine what its duty to the community is as regards the volume of funds it should be called upon to place in that community through the extension of sound loans.

We should be weak and weary by now of hearing the phrase, "A bank's duty to the community." The community owes the banks something and if we wish to phrase it as a "bank's duty to the community," the greatest duty a financial institution can perform to those it serves is not to tie up any considerable portion of its funds in slow loans. A certain portion in slow loans, yes, inevitable in practical banking, but the portion must be watched and must be kept within limits.

What kind of bonds should a bank buy? This question is easy to answer though from the looks of portfolios one would judge it is not so easy to carry out. The answer I have already given. Buy high grade bonds. However, even though nine out of ten bankers would expect such a reply to the question, it appears that many have regarded the answer as merely a copybook story to be told but not to be followed. Pathetic to relate, vocal homage rather than action has been rendered this all-powerful principle of buying high grade issues.

Highly Specialized

MORE and more is bond buying becoming a specialty work with financial institutions and more and more will this be the case in the future. It is not a thing to be done as a sideline, it is not a by-product; it is, on the contrary, very definitely a vocation and a major product. There are hardly any who would deny that many of the troubles which bank bond accounts today reveal would not have occurred had the bonds been purchased by individuals who analyze securities and markets. And here we come to a matter of paramount importance.

We have been lax in our bond buying. It has been from 1923 through 1929 a seller's market. The situation will not be corrected until the banks as a group take such a stand that the market—at least that part which they affect, and it is a large part—will from now, henceforth and forevermore be a buyer's market. It was impossible to have lived in those unusual days of 1926 through 1929 and not to have been affected by them. The banks were affected to a considerably less degree than were many individuals and other financial institutions, but nevertheless, affected they were. Bond buying became somewhat like observing modernistic painting in which a pleasing effect when viewed at a distance was obtained rather than the complete and full satisfaction derived on closely studying the oils of a Rembrandt. Buying securities on name, coupon rate, and price is foolhardy. There are many things to be ascertained about a bond before purchasing it. In all frankness, banks face this alternative. Either they will through their sagacious buying policies dictate the methods of bond distribution or else they will have to leave themselves knowingly open to one of the most pernicious practices existing today in American finance—high pressure, parrot talk salesmanship.

Condition of Business

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industrial corporations that made a gain in profits for 1931 over 1930, a great many companies reported only a moderate decline in their earnings. One of the largest companies in the chemical industry, whose products are so diversified that its volume tends to reflect general business activity fairly closely, is E. I. du Pont de Nemours & Co., whose report has just been published. Its net income from operations was only slightly below the previous year and its net profit, after all charges and after crediting its income from its holdings of approximately one-third of the common stock of General Motors Corporation (which was less than in the previous year) amounted to $53,190,000 as against $55,962,000 in 1930.

Three Sleeping Giants

IT is no accident that during the last fifteen years the attention of students of business has been concentrated on three great industries,—steel, automobiles and building, which because of their importance and their effect upon countless other industries practically dominate the trend of general business. For two years they have been like sleeping giants, who for some time have shown signs of stirring but have not yet fully awakened.

A year ago the steel industry was quite hopeful for a recovery but the ensuing year proved extremely disappointing. Total production was approximately 24,900,000 tons, compared with 39,300,000 in 1930 and 54,850,000 in 1929. Output, however, was higher than that of 1921, which was 19,700,000 tons. Considering the marked upward trend in consumption of steel ever since the industry was established, and the subnormal takings in 1930 and 1931 and the low stocks now held by consumers, a recovery in demand is only a matter of time. Just when it will come no one can say, but the slow upward trend in production this year seems much more likely to develop into a strong finish than if the expected increase had been anticipated, as was done last year. Prices of finished steel are firm.

Automobile production in 1931 was approximately 2,565,000 as compared with 3,500,000 in 1930 and 5,600,000 in 1929. Output was the lowest since 1921. Nevertheless, this is not such an unfavorable showing, considering the popular opinion that during a depression the automobile industry would be the hardest hit. There are more motor trucks in use than a year ago, and also more motor buses. Steam railroads are using more trucks and buses as part of their service. The response of the public to the automobile shows held last month was enthusiastic and the actual sales made since the first of the year have resulted in some stepping up of manufacturing schedules. There is a great deal of conjecture as to the plans of the Ford Motor Company, which have caused many people to hold off making any purchases, the reports from the best sources indicating the introduction shortly of an improved Model A, followed by a V-eight later in the spring. It must also be recognized that the potential replacement demand has accumulated to the point where it will be a tremendous force as soon as the depression passes its acute stage.

In building, the large amount of idle office space and heavy volume of foreclosures has partly obscured the fact that new building of residential types has fallen far behind the increase in ordinary requirements. In Chicago, for example, the average annual increase in population is about 65,000, but during the last two years the rate of residential construction is such as to accommodate about 5,000 more people annually. Recently there have been reductions in the wages of building employes in many of the larger cities, ranging up to 25 per cent, and this, combined with the much lower prices of building materials, will be a stimulus to more building. Whether or not some assistance by the Federal Government is necessary or desirable in financing new and existing buildings is now a question on which there are differing opinions, but in case private capital cannot finance building there will undoubtedly be some assistance offered by a governmental agency. Construction of public works, for a year or more the main factor in holding up the construction total, will without question be curtailed in the future because of the decision on the parts of municipal and state governments to postpone all public improvements not absolutely necessary in an effort to balance their budgets. Electric light, gas and other public utility expenditures will also be lower, and the same is true of railroad building, so that a genuine recovery in building, except in the case of homes, appears to be still some way off.

Bank Liquidation Continues

MONEY rates have continued easy and there has been no real feature in the banking situation since the first of the year, save the unfortunately large number of suspensions. Liquidation of loans and deposits has not yet come to an end. Considerable amounts of gold have been purchased by France with short-term funds which were being held in this market and would presumably have been used to make her payments to the United States Treasury, but this being unnecessary because of the moratorium granted, the balances have been returned to France in gold. If this country's gold reserves were not so large this loss might be a serious matter, but in view of the strong position of our Reserve Banks the exports are a matter of indifference.

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A Word to Depositors

By HARRY J. HAAS

THRIFT is a word to conjure with. Its workings are an open book to those who have practiced its teachings but a mystery to those who know it not. Thrift must be the economic cornerstone in the era of financial reconstruction that we are now entering. I use thrift not merely as a catchword of prudence but as a concrete financial fact of importance in business stability. There is no general economic panacea for prosperity which can replace the good old fashioned habit of personal thrift.

Plan

MAKE a budget to cover your expenses and allow a fair share of your income to be laid aside for the rainy day. Make a will so that when you die your savings shall be distributed as you desire and not wholly according to intestate laws. Provide out of your income an amount according to your ability for the payment of life insurance premiums as a sure means of savings and providing for your family when you have passed away. Build your air castles if you like for a future home and they will most likely come true if you approach them along the safe highway of thrift.

If you will do these things constantly and persistently you are bound to get ahead financially. Then when the time arrives that you have funds for investment, be sure to make your inquiries before you buy. Your banker will be glad to assist you. He is interested in your prosperity because as you progress, so does his bank.

You may feel that the amount you have in your savings account is not of any great importance, but those who have savings in a bank to fall back on in the event of unemployment will tell you differently.

Too many people fail to save as they should during prosperous times and when reverses come they are unprepared to bridge over the lean period until good times come again.

Some people seem to have the idea that banks are overburdened with money and that if they would loan it more freely to finance construction and other projects that it would be the way to give business the needed stimulant and decrease unemployment. While the total of deposits in all classes of banks amounted to approximately $53,000,000,000, and large as these figures seem, they are $3,000,000,000 less than they were four years ago.

To meet this reduction, banks have had to reduce their loans and investments accordingly. After all, the money in banks does not belong to the banks or bankers, as such, nor does it originate with them. It belongs to the depositors of the banks and only as the deposits increase are banks able to extend new loans to their customers. It is true that loans themselves cause deposits to increase, but the start of this upward movement must first come from the deposits.

Looking back at the past, let us learn something for the future.

Let us reflect how, when industry was running at high tide for so many years and reaching new figures each year from 1921 to 1929, many people came to think that the millennium had arrived, and that, while we had experienced periodical reverses in the past, that they would never occur again. Our new idea of economics promised to keep up employment at high wages and shorter hours, thereby increasing consumption followed by increased production.

It is not enough for the individual to lay down a plan of rigid thrift and sound spending for himself. He should also give attention as a good citizen to what his governments are doing and demand of them as well just as careful a program of financial management in public affairs as he sets up for himself in his private affairs.

Unless drastic curtailments in every item of unnecessary, wasteful or inefficient public expenditure is eliminated, the burden of taxation will bear down with distressing weight upon the earnings of our people.

We all recognize that the prime requirement of sound governmental finance is a balanced budget. Effective measures to bring this about constitute the first and foremost duty of the administrative and legislative authorities of Federal, state, county, borough and township governments.

Work

BALANCING a budget clearly implies a reduction of expenditures, or an increase in income or both. This means that the cost of government must be kept to the lowest limits comparable with proper public services.

It is gratifying to note that the most recently elected public officials have taken cognizance of the situation and have strongly expressed their desire to eliminate all non-essentials at this time.

Many times our legislators are unjustly criticised for expenditures. After all, they are the representatives of those who elected them and they are desirous of carrying out the wishes of their constituents which they consider sound so perhaps we should make our appeal direct to the people.

If interested in promoting any expenditure which is not immediately productive or necessary for the public health or safety, you will be helping if you will right about face and withdraw your demands at this time.

Let your duty as a citizen, to help balance your government's budget, be your contribution to private thrift.